# BORDEN, INC.

1976 ANNUAL REPORT



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**Executive Offices**
Borden, Inc.
277 Park Avenue
New York, New York 10017
Telephone No. (212) 573-4000

**Annual Meeting**
The Annual Meeting will be held on Wednesday, April 20, 1977, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey.

**Independent Accountants**
Price Waterhouse & Co.
Sixty Broad Street
New York, New York 10004

**Common Stock Agencies**
Transfer Agent
Citibank, N.A.
111 Wall Street
New York, New York 10015

Registrar
Bankers Trust Company
16 Wall Street
New York, New York 10015

Dividend Disbursing Agent
Citibank, N.A.
111 Wall Street
New York, New York 10015

**Debenture Trustees**
2⅞% and 4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10017

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T.&S.A.
San Francisco, California 94120

**Exchange Listings**
Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on foreign exchanges in Switzerland and Tokyo, Japan.

New York Stock Exchange
2⅞% Sinking Fund Debentures, due 1981
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004

**Date and State of Incorporation**
April 24, 1899—New Jersey

*Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.*

***Written requests should be directed to:***
Borden, Inc.
Attn. Mr. R. G. Tritsch
Secretary
277 Park Avenue
New York, New York 10017

## Financial Highlights

*(In thousands except per share and percentage amounts)*

| | December 31 | | |
|---|---|---|---|
| | 1976 | 1975 | Percent Change |
| **Operating Results (for the year)** | | | |
| Net sales | $3,381,075 | $3,367,243 | + 0.4 |
| Income taxes | 91,300 | 77,600 | +17.7 |
| Net income | 112,807 | 92,884 | +21.4 |
| Net income per common share and equivalent — | | | |
| Primary | 3.64 | 3.01 | +20.9 |
| Fully diluted | 3.48 | 2.88 | +20.8 |
| Dividends per — Common share | 1.35 | 1.30 | + 3.8 |
| Preferred series A share | | .65 | |
| Preferred series B share | 1.32 | 1.32 | |
| Total dividends | 41,648 | 39,901 | + 4.4 |
| Capital expenditures | 134,153 | 104,079 | +28.9 |
| **Financial Position (at year-end)** | | | |
| Working capital | 522,340 | 473,492 | +10.3 |
| Current ratio | 2.2:1 | 2.2:1 | |
| Shareholders' equity | 938,211 | 863,560 | + 8.6 |
| Equity per common share | 30.35 | 28.05 | + 8.2 |
| Common shares outstanding | 30,760 | 30,526 | + 0.8 |

# Message to Shareholders and Employees

Once again, the balanced diversity of its operations enabled the Company to achieve its best year in history in spite of a hesitant and uneven economic recovery. Earnings increased to a new high for the fifth consecutive year. Even more gratifying, our profitability—earnings per dollar of sales—improved substantially. And there was an increase in unit volume that affirmed the success of our greatly expanded marketing programs.

It was a year of significant internal activity. With the cost and availability of energy becoming increasingly important factors in our performance, we formed a Gas Resources Department, with responsibility for assuring adequate supplies of natural gas, one of the Chemical Division's essential raw materials.

We intensified our program to upgrade return on investment. Each of our scores of operations is regularly assessed on its ability to meet minimum assigned goals consistent with the types of products it produces and the nature of the industries it serves. As the performance of each operation improves, new, more demanding goals are set—at least every six months. The stiffest goals are reserved for new profit-adding ventures, whether plant or product. Here, the return on investment must be well above the average for the Company as a whole. The ultimate objective of the program is to broaden our sources of capital for future growth by making the Company a more attractive investment opportunity.

During the year, we inaugurated a program that is perhaps unique in business: the setting of criteria to measure the effectiveness of our advertising efforts on a quantitative basis. We are spending ever-increasing and substantial amounts on advertising, an endeavor in which, heretofore, decisions affecting the choice of agencies and of media, of products to be supported and the degree of support, were largely subjective. Under the new program, the Company's advertising agencies have been made participants in our marketing efforts, with corresponding responsibilities, shared with corporate and Divisional manage-

*Augustine R. Marusi, Chairman and Chief Executive Officer (right), and Eugene J. Sullivan, President and Chief Operating Officer.*

ment, to improve the performance of those products assigned to them. Specific goals are set for advertised brands, and the necessary advertising funds allocated to achieve them. Thus, within Borden, sales improvement is to advertising expenditures what return on investment is to capital expenditures: a specific, quantified measure of performance.

Having both measures is essential in setting Company goals. Borden operates in two broad but sharply distinct areas of business—foods and chemicals. Each requires financial support, but differing in emphasis. The foods side is market-oriented; growth is generated largely in proportion to outlays for product development and advertising and promotion. The chemical side, apart from consumer products, is production-oriented; here, growth is generated chiefly through capital investment in highly efficient plants and equipment.

We have provided balanced support to both sides of our business, and at increasingly higher levels. In 1976, we spent a record $140 million to advertise and promote Borden products, overwhelmingly those addressed to consumers. At the same time, we spent a record $134 million for new plants and equipment, with the majority allocated to our chemical operations worldwide. In 1977, we plan to increase our outlays for advertising and promotion to $160 million, and our outlays for capital projects to an equal amount.

We are spending more and, because of precise measures of performance, we are spending more effectively. As a result, the company is not only growing; it is becoming more manageable: under tighter control; more responsive, and more quickly so, to any opportunities that arise. Consequently, we are confident that Borden can sustain the average growth rate of recent years into the foreseeable future.

We wish to express to the men and women of the Borden organization, the members of the Board of Directors, and the shareholders our appreciation for their generous efforts and support during the year. The undersigned also wish to take this occasion to pay special tribute to Walter R. Olmstead, Vice Chairman, whose retirement from the Company is effective this month. In his 40 years of service, he has made countless friends within and for the Company. He has been an outstanding executive: knowledgeable, decisive, considerate, and possessed of a seemingly insatiable capacity for work. He has been a key member of this administration since its inception. We are delighted that his counsel will continue to be available to the Company in his service as a member of the Board of Directors.

Augustine R. Marusi
*Chairman and*
*Chief Executive Officer*

Eugene J. Sullivan
*President and*
*Chief Operating Officer*

February 22, 1977

# Board of Directors and Officers

## BOARD OF DIRECTORS

COURTNEY C. BROWN
*Dean Emeritus*
*Graduate School of Business*
*Columbia University*

JAMES D. FINLEY
*Chairman and Chief Executive Officer*
*J.P. Stevens & Co., Inc.*
*(Textiles)*

AUGUSTINE R. MARUSI
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WALTER R. OLMSTEAD
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WILLIAM S. RENCHARD
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*Chemical Bank*

W. THOMAS RICE
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*Seaboard Coast Line Industries, Inc.*
*(Railroads)*

PATRICIA CARRY STEWART
*Vice President*
*The Edna McConnell Clark Foundation*
*(Charitable foundation)*

EUGENE J. SULLIVAN
*President and Chief Operating Officer*

WILLIAM K. WESTWATER
*President*
*Westwater Company*
*(A business management firm, Columbus, Ohio)*

LAWRENCE A. WIEN
*Senior member of law firm*
*Wien, Lane & Malkin*

## ADVISORS TO THE BOARD

HAROLD W. COMFORT
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Max A. Minnig


John J. O'Connor


Raymond T. Pryor

## PRINCIPAL OFFICERS

AUGUSTINE R. MARUSI
*Chairman and Chief Executive Officer*

EUGENE J. SULLIVAN
*President and Chief Operating Officer*

JAMES D. MILLIGAN
*Vice President—Foods Division*

MAX A. MINNIG
*Vice President—Chemical Division*

JOHN J. O'CONNOR
*Vice President—International Division*

RAYMOND T. PRYOR
*Vice President—Dairy and Services Division*

BERNARD NEMTZOW
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FRED J. BOARD
*Vice President—Employee Relations*

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JOHN B. NIMONS
*Vice President—Purchasing*

LAWRENCE O. DOZA
*General Controller*

ROBERT G. TRITSCH
*Secretary*


Bernard Nemtzow


Fred J. Board


John B. Carnahan


John V. Lynn


Joseph E. Madigan


John B. Nimons


Lawrence O. Doza


Robert G. Tritsch

# The Company

Borden, Inc. is primarily engaged in the purchase, manufacture, processing, and distribution of a broad range of food, dairy, and chemical products, both domestically and in foreign countries. The four major operating divisions of the Company are Borden Foods, Borden Dairy and Services, Borden Chemical, and Borden Inc. International. Corporate departments provide certain centralized services for the corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its Executive Offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company considers that its operating properties are generally well maintained, in satisfactory condition, and effectively utilized.

**BORDEN FOODS**

The Foods Division markets a wider variety of food products than any other company. Its product line includes cheese, powdered soft drinks, snack foods, sugar, jams and jellies, sea food, condensed milk, and dehydrated foods. As of December 31, 1976, the Division operated 38 manufacturing facilities.

No other food marketer offers the consumer a more impressive array of familiar names than those appearing under the Borden brand: Bama, Campfire, Colonial, Country Store, Cracker Jack, Cremora, Deran's, Drake's, Eagle Brand, Flavor House, Liederkranz, Lite-line, None Such, Old London, ReaLemon, Sacramento, Snow's, Wise, and Wyler's. Eagle Brand sweetened condensed milk is the Company's oldest product, dating back to 1857.

Borden Foods' products are marketed directly, or through food brokers and distributors, to wholesalers, retail stores, food processors, institutions, and governmental agencies throughout the United States.

**BORDEN DAIRY AND SERVICES**

The Dairy and Services Division is responsible for the Company's milk operations in 29 states and ice cream operations in 36 states and the District of Columbia. These operations are supplied by 67 manufacturing facilities.

It markets a full line of dairy products, including homogenized milk, buttermilk, yogurt, chocolate drink, cottage cheese, creams, dips, egg nog, sour cream, ice creams, frozen novelties, ice milks, and sherbets. It also markets a line of low-fat dairy products under the Lite-line brand and a special line of milks suited to different life styles.

The Dairy and Services Division is also responsible for the Company's operations encompassing bottled water, bottled carbonated beverages, and manufactured milk based products for the industrial trade.

A fleet of Borden vehicles distributes these products to homes, stores, warehouses, restaurants, schools, hospitals, industrial establishments, and vending operations.

**BORDEN CHEMICAL**

The Chemical Division, which has 68 manufacturing facilities, makes Borden one of the nation's largest and most diversified chemical companies. It is a major producer of agricultural chemicals, fertilizer, and animal feeds, and a leading supplier of synthetic adhesives to the plywood, particle board, and furniture industries.

It produces a number of basic petrochemicals: polyvinyl chloride, formaldehyde, methanol, ammonia, urea, acetic acid, vinyl chloride monomer, and vinyl acetate monomer. It is the largest manufacturer of vinyl wallcovering and of transparent film used for in-store wrapping of meats and produce. The Division also makes printing inks, and resins, emulsions and latices used by the paint industry.

In addition, Borden Chemical is a leading marketer of products for the consumer: the Elmer's line of glues, Mystik tapes, Krylon spray paints, Lustro-ware plastic housewares, and Sterling school and stationery supplies. The Division is also responsible for the Company's fashion operation.

Borden Chemical products are sold throughout the United States to industrial users and, in the case of household items, to distributors, wholesalers, jobbers, and dealers.

**BORDEN INC. INTERNATIONAL**

The International Division is responsible for the Company's manufacturing operations overseas — 97 chemical and food processing plants in 26 countries. It also directs the marketing of all Borden products outside the


*The national administrative headquarters of Borden, Inc., Columbus, Ohio.*

United States, its export operations extending to more than 130 countries around the world.

Of the Division's approximately 8,400 employees, all but a few are citizens of the countries in which they work. Most products made by the Division are tailored to the needs and preferences of the local markets in which they are manufactured and sold. Its export operations, on the other hand, annually ship millions of dollars worth of Borden products, manufactured in the United States, to markets around the world.

Raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment, and other factors vary substantially from country to country. To the extent practicable, however, the Company's international distribution techniques parallel those used in the United States.

## GENERAL BUSINESS ACTIVITIES AND SERVICES

Competition is intense for each of the operating divisions, which must compete with both national and local manufacturers. Since its products are sold to thousands of customers from all walks of life, Borden's advertising and promotional activities are extensive and embrace all avenues of business communications.

Borden purchases raw materials and supplies from a broad range of sources. Natural gas, fuel oil and electricity are the Company's principal energy sources. The challenge of meeting these energy needs is met by an Energy Task Force (discussed elsewhere in this annual report), which establishes and enforces Company energy conservation policies.

Borden is continually developing and marketing new food, chemical, and dairy products. Research and development activities are carried on at the divisional level and are integrated with quality controls for existing product lines. Research and development expenditures were $14,800,000 in 1976 and $13,600,000 in 1975.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to the production, processing, distribution, and labeling of its thousands of products. In this connection Borden incurred approximately $9,400,000 worth of capital expenditures during 1976. It is estimated that the Company will spend approximately $11,000,000 for environmental control facilities during 1977.

Approximately one-half of Borden's domestic employees are covered by collective bargaining agreements, which are generally effective for periods of from one to three years. As of December 31, 1976, the Company employed approximately 40,400 persons, about 32,000 of whom are located in the United States.

# Borden Foods

| | 1976 | 1975 |
|---|---|---|
| Sales (in Millions) | $1,036.1 | $1,101.4 |
| % of Total Sales | 31% | 33% |
| Operating Income (in Millions) | $ 56.6 | $ 32.7 |
| % of Total Income from Operations | 22% | 15% |

Operating income of Borden Foods in 1976 increased 73% from a year earlier, paced by a sharp recovery in sugar refining operations.

Unit sales overall increased substantially, but dollar sales declined owing to generally lower selling prices, particularly for sugar and sugar-based products. The price reductions were instituted to reflect a drop in commodity costs, and had the desired effect of stimulating sales sufficiently to offset narrower unit margins and improve total operating income. The price cuts also strengthened the market positions of several major product lines.

For the food industry, 1976 was a year of uneven and, at times, hesitant recovery from the concurrent inflation and recession that struck the economy in 1975. Historic consumer buying habits were not resumed. Contrary to the pattern of past recoveries, sales of discretionary foods—snacks and convenience items—rebounded more quickly and more substantially than did sales of basic foods such as canned goods. This suggests that inflation was more of a deterrent to sales than the recession in that inflation affected all economic levels to some degree.

**Snack volume solidly ahead**

In general, Borden Foods' recovery followed the pattern of the food industry. Volume sales of snack items moved solidly ahead of a year earlier for all product lines: Cracker Jack candied popcorn, Drake's cakes, Wise potato chips, Old London snacks, and Flavor House nuts. The improvement extended to most convenience foods as well, with substantial gains recorded for Eagle Brand sweetened condensed milk, Kava instant coffee, and the full line of Borden-brand cheeses: single wrapped American, Cheez Kisses, grated cheese, and Liederkranz brand and Camembert dessert cheeses.

During the year the Division continued its elimination of marginal and unprofitable plants and products, including the sale of a liquid sugar refinery and withdrawal from certain fruit and vegetable canning operations.

Supply problems hampered the performance of some operations. A clam kill off the New Jersey coast and unfavorable weather, together with state-imposed restrictions on in-shore clamming to preserve the diminishing resource, caused a severe industry-wide shortage of clams and adversely affected Snow's seafood canning operations. A decline in the supply of fruits available for processing had an adverse effect on the Division's Comstock operations; the shortage was most severe in cherries for pie fillings.

**More aggressive marketing**

The food industry's recovery was marked by increased competitiveness, notably in those product categories with above average growth potential. More aggressive marketing efforts were evident in snacks and cheese but particularly in soft drink mixes, a major category and one of the fastest growing. The category continued to grow, stimulated by the entry of other food companies into the market.

The Division's sugar refining operations were profitable throughout the year, extending an improvement that began in mid-1975, reflecting volume gains and more stable market conditions. On a year-to-year comparative basis, the swing from loss to profit was a substantial factor contributing to the improvement in the Division's 1976 operating income.


*Above: Susan L. Reedquist, assistant product manager for Campfire marshmallows, pays a visit to the plant in Chicago for a first-hand look at new equipment that will increase extrusion capacity for marshmallows by 80%.*

*Right: Executives of Borden Foods assemble on stage in San Francisco to be introduced to the Division's brokers, who for the first time were brought together at one meeting. "We have just begun" refers to a program under way that will totally integrate the Division's sales, marketing, and distribution activities. By September, 1977, approximately 60 food brokers will be serving the 79 key markets in the U.S.*

Significant progress was made during the year toward total integration of the Division's sales, marketing and distribution activities. The project, begun in 1975, will achieve more effective sales execution and coverage, simplify communications—internally and externally—and optimize marketing efforts.

Integration will also provide greater opportunities to roll out regional products to new markets and achieve deeper penetration within existing markets.

During the year, the Division substantially consolidated its use of broker organizations handling such products as Bama jams and jellies, Cracker Jack candied popcorn, Sacramento tomato products, and Wyler soup and drink mixes. By September, 1977, the Division expects to have approximately 60 brokers serving the 79 key markets in the U.S.

Management of the total sales effort was centralized at division level with the formation late in the year of a new unit, Borden Foods Sales. The unit will coordinate the activities of brokers and the internal sales force.

To more fully tap the huge potential of the institutional market—restaurants, hotels, hospitals and in-plant feeding systems—a central food service group was established. Each member of the group's sales organization handles the full line of Borden food products packaged for the institutional trade; previously each product line had its own representative. The food service industry is expected to double the growth rate of the retail food business and is currently the third largest industry in the United States. One of three meals is currently eaten away from home, and this is expected to increase to one of every two meals by 1980.

The warehouse consolidation program accelerated during the year, leading not only to a reduction in the number of facilities but also to further combination within facilities of both brokered and directly sold grocery products. All the Division's warehouses are now public, but each has a Borden-employed coordinator to expedite shipments. Warehouse consolidation has had the added benefit of increasing the utilization of the company's private truck fleet.

### Sales and distribution restructured

Restructuring of the sales and distribution network will facilitate handling the growing volume of business generated as a result of the Division's greatly expanded marketing program. Under the project, the Division's marketing staff has been doubled, more than 200 sales people have been added, advertising support has been substantially increased, consumer affairs activities have been expanded, and a food service group has been formed. The food broker network is being consolidated, the internal sales force is being integrated, warehouses are being combined, and a system of one-order,


*Management of the Division's total sales effort was centralized at division level with the formation late in the year of a new unit, Borden Foods Sales. The unit will coordinate the activities of brokers and the internal sales force, which together represent the full product line.*

one invoice electronic processing is being introduced.

During the year the Division mounted the largest advertising and promotion effort in its history. It was the major participant in Borden sponsorship of two prime time television specials and the largest magazine "spectacular" in publishing history. Commercials for more than a score of Borden food brands appeared during the two-hour network showing of "The Waltons Easter Story" and the three-hour musical film, "1776." A similar but more distinctive "umbrella" for the Division's products was the magazine spectacular: 26 million copies of a 16-page, full-color tear-out booklet that ran in year-end holiday issues of Better Homes & Gardens, Good Housekeeping and Family Circle. The booklet, titled "Home for the Holidays," carried no advertisements but instead featured recipes and menu suggestions for 21 of the Division's products plus cents-off coupons valued at more than a dollar.

**Extensive in-store promotions**

The use of "umbrella" advertising makes it possible to promote the distinctive features of individual products and, at the same time, project a unified image of Borden, not only to the immediate audience but also to the trade. Extensive in-store promotions were tied to the two TV specials and the spectacular; the promotions also featured related, non-competitive products such as meats and produce as a means of generating additional store volume, a merchandising technique that is welcomed by the grocery trade.

In 1977, the Division will build a year-long promotion, directed to both consumers and the trade, around Borden sponsorship of another television special, The Ringling Bros. and Barnum & Bailey Circus, with Gene Kelly as host. It will be broadcast on the NBC network on March 15. For consumers, the March issues of Women's Day and Good Housekeeping magazines, with a combined audience of more than 34 million, will each carry ten full, successive pages of Borden advertising, eight devoted to individual products of the Division and a two-page spread describing an offer of a $1.50 cash refund and a free copy of a new 16-page recipe book, "Create a Circus Spectacular." The trade promotion will be linked to circus performances in cities around the country throughout the year.

Roll-out—the extension of established regional Borden brands to new geographical areas—had a measurable effect on the Division's performance, as did the market expansion of well-tested new products.

Bama jams, jellies and preserves, originally available in 22 southern and southwestern states, moved into new areas of the

Midwest and at year end were within reach of 60% of the U.S. population. Further roll-out to markets in the Northeast is scheduled during 1977.

The full line of Drake's cakes was made available in the Pittsburgh market. Distribution of Wise potato chips was expanded in Atlanta and the Baltimore/Washington area. Increased market penetration in the South was tested for Cracker Jack with the use, for the first time, of snack distributors to deliver the product direct to stores. For this method of distribution, Cracker Jack is being packaged in newly designed foil bags. The system will be expanded to other areas upon successful completion of the test.

**Cheez Kisses in national distribution**

Sacramento Tomato Plus vegetable-based juice drink rolled out to the New York Metropolitan, Philadelphia and New England markets, achieving excellent distribution throughout those areas. Cheez Kisses, bite-size nuggets of pasteurized process cheese spread wrapped in cellophane, reached full national roll-out, only three years after their introduction as a totally new kind of snack.

Pro-line Skim American slices, a new product with "half the fat and all the flavor" of regular process cheese, has been well received in test areas and its distribution will be extended during 1977.

New product development was an important part of the Division's total marketing effort in 1976.

The Wyler unit launched Borden Prize, a premium-quality lemonade mix containing real citrus pulp, with the support of a major advertising and promotion campaign. It also introduced Wyler's Lite, a low-calorie lemonade mix, and three varieties of flavor-enriched soup mixes. The beverage products unit began testing a new Borden Breakfast Drink with real citrus pulp.

Introduced under the Drake's label in test markets were Creme Fingers, Cake 'a Doodles, peanut butter-filled cakes in gold and chocolate varieties, and creme-filled, fudge-flavor iced cup cakes.

Wise moved to increase its franchise in potato chips with the test introduction of Lights, a completely natural, light-colored chip, as a companion to the original Wise product, a darker chip. Darker chips are preferred in the East, where Wise had its start, whereas light chips are more popular in the Midwest. At year end, Wise had begun production test runs of Stackables, a new fabricated potato chip of uniform size and shape that will be packed in a tubular container. Introduction on a test market basis is scheduled for March 1977. To manufacture Stackables, complete new facilities were installed at the Wise plant in Berwick, Pa.


*The Division's Wise unit moved to increase its franchise in potato chips with the test introduction of Lights, a completely natural, light-colored chip, as a companion to the original Wise product, a darker chip.*

The success of recently developed cheese products, notably Cheez Kisses and Lite-line, although exceptional as measured by rate of growth, was overshadowed by a further surge in demand for Borden individually wrapped process cheese slices. Individually wrapped slices make up the fastest growing category in the industry, and one in which the Division has been a leading innovator.

To keep up with demand, the Division during the year undertook a major expansion of manufacturing facilities at Van Wert, Ohio, that will double capacity for cheese slices. The first of the new lines is scheduled to be in operation by May 1977 with all three lines in production by the following July.

The expanding presence of Borden Foods in the marketplace has led the Division to increase its information and education activities with consumers, complementing and supplementing information conveyed by advertising and product labeling. In March, a new consumer affairs department was formed with responsibility for consumer correspondence, product information and the Borden Test Kitchens. The consumer corre-

Food demonstrations by trained home economists are part of the guided tours of the Borden Kitchens conducted for community and professional groups. The Kitchens are located at the company's national administrative headquarters in Columbus, Ohio.

*Top: A section of the Borden Kitchens, which include six full units (range, sink, appliances) for testing and preparing foods under home conditions. All Borden recipes appearing on product labels and in advertisements and recipe books have been tested by trained home economists on the Borden Kitchens staff.*

*Bottom: Borden Foods' consumer correspondence section serves a twofold purpose: primarily, the prompt, centralized handling of mail and telephone inquiries from consumers, but also the dissemination to the staffs in sales, marketing, product development and quality assurance of data generated by the inquiries. Electronic processing equipment is used for the collection, storage, and dissemination of the data.*

spondence section serves a twofold purpose: primarily, the prompt, centralized handling of the numerous letters and telephone calls concerning Borden Foods' Products that are received each year, but also the dissemination to the staffs in sales, marketing, product development and quality assurance of data generated by the inquiries. Electronic processing equipment has been installed to facilitate the collection and dissemination of data.

The Borden Test Kitchens also serve a twofold purpose: the development of recipes for product labels, recipe books and publicity releases to newspaper and magazine food editors, and the testing of newly developed products under home conditions. A consumer taste-test panel is operated in conjunction with the Kitchens; almost a thousand Borden employees at corporate administrative headquarters in Columbus, Ohio, serve on the panel, giving their reactions to new or reformulated products.

* * * * *

The outlook for the Division overall in 1977 is favorable. The food industry is expected to continue its gradual recovery from the low point in 1974, although there may again be some unevenness. Demand for snack foods and convenience items should benefit from a stabilized inflation rate, which in turn, together with moderate economic recovery, should slow the rise in the Division's major cost components—labor, energy, packaging and distribution.

An upturn in demand for food staples such as canned goods will hinge on the scope more than on the degree of recovery, but in any event is likely to be hampered by tight supplies and consequent price increases. Raw sugar supplies should be adequate with prices relatively stable. Milk for manufacturing purposes should be adequate, also, with some easing of costs. No serious commodity shortages or unusual price increases are expected except for coffee and cocoa beans which are expected to remain at record high prices.

The effect of the industry upturn will be magnified within the Division by product line and market expansions and by cost efficiencies resulting mainly from the restructuring of sales and distribution.

# Borden Dairy and Services

| | 1976 | 1975 |
|---|---|---|
| Sales (in Millions) | $ 965.5 | $ 941.7 |
| % of Total Sales | 28% | 28% |
| Operating Income (in Millions) | $ 42.8 | $ 35.2 |
| % of Total Income from Operations | 16% | 16% |

Operating income reported by Borden Dairy and Services increased 22% from a year earlier. The improvement in part was the result of withdrawing from the milk business in the Chicago area in 1975 and, in addition, outstanding performances by the Division's specialty operations. Sales rose, reflecting generally higher selling prices on moderately lower overall volume.

The Division achieved a slight increase in unit sales of milk products, even though prices ran counter to the downward trend in the food industry. In 1975, unit milk sales had risen sharply, spurred by the advantage of relatively stable prices compared with those of other foods.

Milk production throughout the industry rose substantially in 1976, but raw-milk costs, seasonally adjusted, climbed steadily throughout most of the year as farm cooperatives continued to command premiums well above the record minimum prices mandated under Federal milk marketing orders. Raw-milk costs rose more rapidly than selling prices, with the result that operating margins were adversely affected.

**Butterfat costs rise**

The cost of butterfat used in ice cream soared as much as 40% above year-earlier levels. In spite of sharply lower sugar costs, ice cream prices were forced so high throughout the industry that volume sales declined substantially from the previous year. Further hampering sales was the weather; many areas of the country experienced the coldest summer and fall on record.

Measured against any other recent year but 1975, however, ice cream sales remained strong. In 1975, a public beset by inflation and recession perceived ice cream as an economical nutritious food and a low-cost treat, which it was; soaring prices for other foods made it, next to gelatin, the lowest in cost per serving among a dozen of the most popular desserts. As a result, per capita consumption jumped to its highest level since the end of World War II.

For the Division, its market position in ice cream improved in 1976, as volume and dollar sales declined less than those of the industry. Contributing to the above-average performance were the introduction of new products and further success in positioning Borden ice cream as a year-round snack. In its packaging, advertising, and promotion, the Division has been emphasizing easy-dipping half-gallon round containers, which encourage home-storage of ice cream and its use at other than meal-time. Such usage stimulates "off-season" sales, which by their leveling effect on manufacturing and distribution facilities also contribute to greater operating efficiency.

**Specialty operations advance**

The Division's specialty operations had an outstanding year. Although small relative to milk and ice cream operations, they have contributed an increasing share of sales and operating income, upgraded the Division's product mix, and broadened the Division's growth opportunities by diversifying its activities.

Bottled water enjoyed a record year, outperforming the industry as a whole. The number of customers, and unit and dollar sales, increased from a year earlier. The introduction of a new five-gallon plastic bottle (manufactured by Borden Chemical) was enthusiastically received by commercial and residential customers alike, and was an effective marketing tool in obtaining new business.

The marketing area for bottled water was expanded during the year with the opening of a bottling plant at Orlando, Fla. Orlando has been the fastest growing area in the


*Lady Borden premium ice cream with 100% natural ingredients was introduced on a test basis in Florida with excellent results, and will be expanded to all Southern and many Northern markets in 1977. The gold half-gallon containers are manufactured in the Division's own plants.*


*Borden low-fat yogurt, with 100% natural ingredients and fruit on the bottom, was exceptionally well received during test marketing, and will be rolled out to all the Division's markets in 1977.*


*In her 38th year as a live symbol of Borden dairy products, Elsie the Cow had her busiest year ever, visiting 60 cities from Honolulu, Hawaii, to San Juan, Puerto Rico. Above, she rides the award-winning float in the Barnum Festival Parade in Bridgeport, Conn., on the Fourth of July.*

state since the opening of Walt Disney World in 1970.

The Division's bottled soft drink operations also had a record year, achieving further penetration within its 12-county marketing area surrounding Indianapolis, Ind. Unit sales climbed sharply following price reductions that reflected a decline in sugar prices. The gain in unit sales more than offset the lower prices, lifting dollar sales to a new high as well.

The Division's unit specializing in the manufacture of milk-based products for the industrial trade had its most successful year ever. The gains were paced by sharply higher sales of its recently introduced Actilac, a patented growth media for cheese starters, which has received outstanding acceptance from the industry. Actilac has several characteristics, absent from other growth media, that improve the cheese-making process and the quality of the finished product; it is available in four formulas for manufacturing four different varieties of cheese.

The Division's Flavor Department, another specialty operation, had a record year. The Department supplies flavors and ingredients to the Division for use in ice cream, yogurt, and fruit drinks, and also markets them to candy, bakery, and ice cream manufacturers.

In order to more effectively tap the potential of the fast-growing market for industrial ingredients, all the company's sales and marketing activities pertaining to industrial food products were consolidated within Dairy and Services, effective Jan. 1, 1977. The consolidation involved the transfer from Borden Foods of its Industrial Foods unit, which has been responsible for marketing the Division's line of ingredients to other manufacturers—ingredients such as citrus powders, cheese powders, almond paste, and nuts. The Industrial Foods unit was combined within Dairy and Services with those operations already serving the industrial trade; this unified and comprehensive approach to the industrial segment of the food business is expected to generate substantial growth opportunities for the Division.

In the dairy operations, "naturally good" was again the theme of major marketing efforts, a theme that was reinforced with the development of several new products.

**New Lady Borden Ice cream Introduced**

Lady Borden premium ice cream with 100% natural ingredients was introduced on a test basis in Florida with excellent results, and will be expanded to all Southern markets and many Northern markets in 1977. For its debut, the new Lady Borden

was packaged in a gold half-gallon round container with pictorial lid, and available in six flavors. The containers are manufactured in the Division's own ice cream plants, a feature which contributes to lower packaging costs.

Borden Old Fashioned Natural-flavor ice cream continued to make inroads into the market for standard ice cream as its distribution was extended to new areas. It, too, is packaged in a half-gallon round container, made on premises. The product will be rolled out to all markets of the Division in 1977.

Borden yogurt enjoyed an outstanding year with the support of an intensive advertising program, the introduction of a totally new product line, and the complete repackaging of the existing product line.

Borden low-fat yogurt, with 100% natural ingredients and fruit on the bottom, was placed in test in Florida and exceptionally well received. Because it is addressed to a specific market segment—those consumers who prefer the more tart, traditional yogurt—the new product did not encroach on the market for Lite-line Swiss style yogurt, a more dessert-like product with fruit mixed throughout. Its sales increased in Florida, as well as in other areas, behind extensive advertising of its all-natural qualities and complete redesign of its packaging.

The new Borden yogurt, for which ten flavors have been developed, will be rolled out to all the Division's markets during 1977.

**Cracker Jack bars successful**

Another new product that will undergo market expansion in 1977 is Cracker Jack ice cream bars. Distribution will be extended to all Northern markets, following successful testing in the Midwest. All the features of the popular confection have been carried over to the ice cream novelty: each chocolate-covered bar is coated with candied popcorn and peanuts, there is a "toy surprise" inside each box of six bars, and the package design has the familiar Sailor Jack and his dog Bingo.

Advertising and promotion were maintained at a high level throughout the year. The Division's participation in Borden sponsorship of two prime-time television specials and a magazine "spectacular" was supplemented with magazine advertising in behalf of Borden-brand ice cream, homogenized milk, and cottage cheese. Lite-line yogurt and Lady Borden ice cream received promotional consideration throughout the year on several popular daytime television game shows, during which the products were given to contestants as prizes.

Elsie the Cow, in her 38th year as a live symbol of Borden dairy products, had her busiest year ever, as civic organizations throughout the country sought her participation in Bicentennial events. She began the year in Honolulu, her first visit to Hawaii, and ended the year in Puerto Rico, her first visit to the island. In between, she toured 55 mainland cities, visiting children's hospitals and shopping centers, taking part in parades, and making television appearances. On the Fourth of July she rode the award-winning float in the Barnum Festival Parade in Bridgeport, Conn., the birthplace of P. T. Barnum. She also made appearances at four major trade conventions.

*The Dairy and Services Division expanded its bottled water operations to the Orlando, Fla., area during the year. The routeman delivers a new five-gallon plastic bottle, ten pounds lighter than glass and far less fragile.*

Capital projects to improve efficiency and capacity were carried out at more than 30 locations of the Division during the year.

Several projects were concerned with energy conservation. The electrical power systems at Youngstown, Ohio, and Oklahoma City were completely renovated, as were fleet maintenance facilities at Hattiesburg, Miss., and Oklahoma City. At High Point, N.C., new fleet maintenance facilities were near completion at year end.

The Division's major capital project in 1977 will be the installation of equipment at Watertown, N.Y., for the recovery of solids from acid whey. Using a new process, the facility will be the first in the industry to recover food elements for human use from the acid whey produced in the manufacture of cottage cheese. Acid whey has been a perennial problem for the dairy industry; although high in nutrients, it has heretofore been of no commercial value, and has had to be either pre-treated before disposal in sanitary systems, or hauled away. The whey nutrients recovered at the Watertown plant will be used as an ice cream ingredient by the Division and marketed by the new Industrial Foods unit to the ice cream and bakery trades. The project is scheduled for completion early in 1978.

# Borden Chemical

| | 1976 | 1975 |
|---|---|---|
| Sales (in Millions) | $ 833.6 | $ 730.2 |
| % of Total Sales | 25% | 22% |
| Operating Income (in Millions) | $ 108.1 | $ 99.1 |
| % of Total Income from Operations | 42% | 45% |

Benefiting from recovery in several major industries that it serves, Borden Chemical again set new highs in sales and operating income. Substantial improvement in the housing and automotive markets from the depressed levels of 1975 stimulated demand for thermosetting and thermoplastic resins, two of the Division's principal industrial products. The upturn in resins business, along with continued improvement in consumer products, more than offset a decline in income from agricultural chemicals that resulted from sharply lower selling prices and margins.

The Division is the leading supplier of thermosetting resin adhesives to the plywood and particleboard industries, and thus was a major beneficiary of a 33% surge in housing starts from a year earlier, to 1.5 million units. The market effect of the gain in number of units was magnified by an increase of 7%, or 105 square feet, in the median size of a single-family home. Still further support for the plywood market came from the $37-billion home-improvement industry, which absorbed a record 4.2 billion square feet.

The Division's supply position in resin adhesives was strengthened with the opening of its 17th formaldehyde plant, in late October. Formaldehyde is the basic ingredient of resin adhesives. The new plant, at Geismar, La., is rated at 250 million pounds annually; it boosts the company's domestic formaldehyde capacity to over 1.5 billion pounds per year, and worldwide capacity to over 2.2 billion pounds, more than that of any other producer.

The upturn in the economy also spurred demand for packaging adhesives and foundry resins. A new facility for making hot-melt adhesives used by the packaging industry went into production at Louisville, Ky., late in the year. Also at Louisville, construction was under way at year end on a new plant to produce phenolic resins for the foundry trade, with completion scheduled for the second quarter of 1978. This facility, together with an expansion in progress at Bainbridge, N.Y., that will be completed late in 1977, will more than quadruple the Division's output of foundry resins. The resins are used in foundries to bind sand core molds for metal castings; as with plywood adhesives, their basic ingredient is formaldehyde.

### Insulspray Introduced

A new and promising market for formaldehyde has been spawned by the energy shortage. The Division has developed a foamed-in-place insulating material made by combining a urea-formaldehyde resin with a catalyst. Called Insulspray, it is pumped into exterior wall cavities at the consistency of whipped cream; in place, it hardens into a rigid, highly cellular mass with the highest insulation value of any approved residential insulation product. The material has a Class A fire rating and effectively reduces sound intrusion from the outside.

The recovery in the housing and automotive markets was a significant factor contributing to improved sales of thermoplastic resins. The principal thermoplastic resin, PVC, is widely used by the housing industry in the form of vinyl flooring, siding, pipe, and wallcoverings, and by the automotive industry for vinyl upholstery, roofing, and wiring. The Division also experienced a pickup in demand for PVC from other markets: packaging, luggage, furniture, and women's accessories.

*The Division's supply and cost position in PVC resins was strengthened early in 1977 with the opening of a new plant at Geismar, La., for the manufacture of vinyl chloride monomer (VCM), the source material for PVC. The plant has an annual capacity of more than 300 million pounds of VCM, derived from ethylene.*

The underlying raw material of PVC is derived from hydrocarbons, the rising cost of which has narrowed vinyl's price advantage relative to some competitive materials. To offset any market erosion, the Division intensified its efforts to convert an increasing share of its resin capacity into higher-margin intermediate and end products.

One of the most successful of these end products is Resinite packaging film. Already the leading brand of transparent film for in-store wrapping of meats and produce, its market was substantially broadened with the introduction of a new film for the stretch-wrapping of palletized products, which eliminates the need for taping, strapping, or heat sealing. The product has received outstanding acceptance from industry, and was an important contributor to sharply higher sales and margins for the Resinite line. To meet the rising demand, total Resinite capacity will be increased almost 20% with an expansion at Griffin, Ga., that will get under-way early in 1977 and be completed by the third quarter of the year. Griffin is one of four Resinite production facilities operated by the Division.

The coated fabric operations, one of the Divison's principal converters of PVC resins, experienced a substantial improvement as a result of higher efficiency and strong demand for industrial products. The operations introduced a new collection of pre-pasted wallcoverings, titled Wall Ways, under the Wall-Tex brand. Part of the collection is Afternoon Tea Train, designed by the British inventor and Punch cartoonist, Rowland Emett, whose work was featured in the motion picture, Chitty Chitty Bang Bang.

**Expansion under way**

Vinyl materials produced by the Haverhill, Mass., plant enjoyed good demand, in contrast to the experience of that sector of the industry. The principal outlets for these materials are luggage and furniture. Laminating and printing capacity will be increased 30% with the completion of an expansion project at Haverhill in the second quarter of 1977.

The Division's supply and cost position in PVC resins was strengthened considerably early in 1977 when a new plant for the manufacture of vinyl chloride monomer went into operation at Geismar, La. Vinyl chloride monomer, or VCM, is the source material for PVC; in the polymerization process, VCM


*A major new avenue of distribution for the Division's home-improvement product lines—Elmer's adhesives and sealants, Mystik tapes, and Krylon decorator spray paints—was opened with their placement for the first time in a number of stores operated by leading general merchandising chains. The above displays are in the J.C. Penney Company store in Woodfield Mall, Schaumburg, Ill.*

is converted into PVC on virtually a pound-for-pound basis. The new plant will have a capacity of more than 300 million pounds of VCM, derived from ethylene, itself a derivative of oil refining. Output of the facility will replace purchased VCM.

A new facility for the manufacture of PVC paste resins was added at Illiopolis, Ill. It has a capacity of 45 million pounds per year.

The petrochemical complex at Geismar, of which the new VCM plant becomes a part, had the best year in its 16 years of operation. A significant improvement in efficiency was accompanied by record output of methanol, ammonia, urea, and vinyl acetate monomer (the last a source material for, among other products, Elmer's Glue-All). The complex supplies these basic chemicals to other Borden Chemical facilities for conversion, and also sells them to industrial customers. A factor adding to the efficiency of the complex is its safety record; it has operated without a disabling employee injury for over four and a half years.

**Gas Resources Department formed**

Because of its need for hydrocarbon feedstocks, the petrochemical complex is the largest user of energy within the company. The principal raw material is natural gas, which has come under severe pressure of cost and supply. To assure meeting the company's growing needs for this raw material, a Gas Resources Department was formed in October and its supervision assigned to Borden Chemical. It is responsible for managing all gas reserves currently owned, leased, or under contract to the company; for developing additional reserves, and for negotiating new supply contracts.

The Division's fertilizer operations were severely affected when market prices of agricultural chemicals throughout the industry fell sharply from year-earlier levels, in the face of rising costs for energy-intensive raw materials. The impact of the squeeze on the Division's fertilizer operations was softened somewhat by an exceptionally heavy demand, which improved operating efficiency, and by the highly integrated nature of the operations. The Division supplies its own needs of ammonia and urea for nitrogen-based fertilizers from the Geismar complex, and phosphate for phosphate-based fertilizers from owned-and-operated mines in Florida.

Shipments of fertilizer were at an all-time high, and sufficiently above a year earlier to lift dollar sales as well, in spite of the sharp drop in prices. The price slide tapered off in the fall, with the result that operating income rose above start-of-year projections; nonetheless, it declined almost 30% from

*Above: Insulspray, a foamed-in-place insulating material developed by Borden Chemical, has the highest insulation value of any approved residential insulation product and a Class A fire rating. Pumped into exterior wall cavities, it hardens into a rigid, highly cellular mass. The illustration shown is from a television commercial for the product.*

*Right: The Chemical Division introduced a new Resinite PVC film that eliminates the need for taping, strapping, or heat sealing palletized products. The film has received outstanding acceptance from industry, and was an important contributor to sharply higher sales and margins for the Resinite line. It is shown here in use at Dairy and Services' Detroit ice cream plant.*

the record high achieved in 1975.

To assure meeting its needs of phosphate for fertilizer as well as for animal-feed supplements in the foreseeable future, the Division during the year began development of rich new reserves of phosphate rock at Big Four, southeast of Tampa, Fla. The project will include a new beneficiating plant for separating the phosphate from accompanying sand and clay. The facility, which will have a capacity of 1.2 million tons per year, is scheduled to go into operation early in 1978.

Printing ink operations experienced a sharp rise in unit volume, primarily as a result of further expansion into inks and materials for publication printers.

**Consumer products gain**

Chemical consumer products had an outstanding year, led by the Elmer's line of home-improvement products and a strong showing by Sterling school and office supplies. Over half the Elmer's line of 33 items has been introduced within the past two years. The quick and enthusiastic acceptance of these new products by the trade and consumers contributed materially to record dollar and volume sales.

Eight new products appeared under the Elmer's brand during the year: Professional Carpenter's contact cement, Professional Carpenter's wood filler, Glaze-Tuff acrylic latex glazing compound, Redi-Spack spackling compound, epoxy bars, and a floor tile adhesive, ceiling tile adhesive, and cove base cement, all made with non-solvent ingredients. Packaging for the carded line of Elmer's products was substantially redesigned.

A major new avenue of distribution for the Division's home-improvement product lines—Elmer's adhesives and sealants, Mystik tapes, and Krylon decorator spray paints—was opened with their placement for the first time in a number of stores operated by leading general merchandising chains. Further expansion in the number of outlets, and in the items available at each, is anticipated during 1977.

Prompted by the success of its Desk-Mates line of office and office-at-home accessories, introduced in 1975, the Division's Sterling unit added eight new items to the line, bringing the total to 15. The new products include a desk pad, desk-top address file, hand-held electronic calculator stand, and five desk-top organizers.

The Alex Colman line of women's sportswear and dresses enjoyed another record year, running counter to a decline in the fashion industry generally. Contributing to the improved results were several factors: continued acceptance of the Alex Colman

*The Chemical Division's 17th formaldehyde plant, and the company's 36th worldwide, went on stream at Geismar, La., during the year. The 250-million-pound facility boosted the company's formaldehyde capacity to more than 2.2 billion pounds annually.*

marketing concept, a combination of good design, versatility, and price positioning in the mid-range of women's quality apparel; the introduction of a new full line, and cost efficiencies resulting from new warehouse facilities and the introduction of computerized design equipment.

The new full line, called Separate Ways, updates and is a companion to the successful Mr. Alex line.

A new warehouse of 60,000 square feet, for piece goods, opened in December at Vernon, Calif. It complements a warehouse and distribution center of 175,000 square feet, for finished goods, that opened in mid-1975 at El Monte, Calif. Alex Colman has its headquarters, design and cutting operations, and showrooms in downtown Los Angeles, with additional showrooms in New York, Chicago, Dallas, and Miami.

* * *

Continued growth is foreseen for Borden Chemical in 1977. Most of the favorable economic factors that contributed to record results in 1976 will again be present, with their impact on Division performance heightened by a moderation of adverse factors. The Division should benefit from increased housing starts, expected to rise 20%; further recovery in the automotive market; higher sales of consumer products, helped by broader distribution and the introduction of new products, and strong demand for the basic chemicals produced by the Geismar petrochemical complex. Conditions in the fertilizer industry are likely to be similar to those experienced in late 1976, but the effect on the Division's results will be moderate relative to that which resulted from the downslide that occurred between 1975 and 1976. The Division has decided not to pursue its look into the fast food business and is withdrawing.

Industry demand for PVC resins is expected to hold at about 1976 levels, but the Division should nonetheless benefit from its conversion of a larger share of resin production to intermediate and end products. Further improvement is foreseen for the Resinite line.

The increase in the cost of oil, imposed by OPEC, will increase the cost of all forms of energy, including natural gas, the Division's principal raw material. The effect, however, should be minimized by economies and efficiencies to be realized from the new Gas Resources Department.

# Borden Inc. International

| | 1976 | 1975 |
|---|---|---|
| Sales (in Millions) | $ 545.9 | $ 594.0 |
| % of Total Sales | 16% | 17% |
| Operating Income (in Millions) | $ 53.1 | $ 51.3 |
| % of Total Income from Operations | 20% | 24% |

Operating income of the International Division set a new high, rising 3.4% from a year earlier on an 8.1% decline in sales. Greater income growth was hindered primarily by the sharp drop in export fertilizer prices and demand which, along with currency fluctuations and the disposition of some operations, accounted for the decline in sales.

**Latin America**

Borden chemical products continued to make strong gains in Latin America. Many affiliates set new production records as their share of market increased.

The food operations had a good year. The Brazilian pasta company substantially improved its share of the markets for higher quality spaghetti and macaroni, with help from an expanded advertising campaign that included the use of television for the first time. The introduction of price controls on pasta products had an effect on earnings, which should diminish in 1977 as sales continue to improve. A new central warehouse was constructed to streamline the distribution system and handle the increased demand. The affiliate successfully introduced a new powdered spaghetti sauce, its first non-pasta product, which was developed using Borden technology in dehydration.

Borden Puerto Rico began construction of added warehouse facilities to handle growing product demand. In Panama, local packaging of Cremora non-dairy creamer, Hemo fortified chocolate drink mix, malted milk, and Borden instant breakfast drink began in September, with encouraging results. Plans have been made for the start-up of ice cream production in 1977. In Colombia, KLIM brand powdered whole milk maintained its leading market position. In Venezuela, Borden sold its remaining interest in a dairy.

Latin American chemical operations had an exceptional year. The Brazilian company, benefiting from a substantial increase in capacity in 1975, boosted tonnage sales of industrial chemicals by 40% from a year earlier. Sales of consumer products also improved, stimulated by extensive redesign of packaging and labels. In Mexico, the chemical operations set sales records earlier in the year, with some slowdown toward year end as the country encountered economic problems. The Central American affiliate enjoyed surging business; output of formaldehyde ran at capacity, and additional facilities are being planned. In Uruguay, Borden began production of formaldehyde for the first time in that country; a synthetic resins plant opened there in 1975. Borden will open its first manufacturing operation in Ecuador when a synthetic resins plant, now under construction, goes on stream during the second quarter of 1977.

**Canada**

The chemical operation of Borden Canada continued its forward thrust with record sales. The dairy and food operations increased market shares in several product areas with the help of a record television advertising effort and aggressive sales campaigns. Dairy and food income was affected, however, by lower prices resulting from severe price competition and government anti-inflation guidelines.

To support market growth, several capital projects were undertaken. These included the expansion of chemical operations at North Bay, Ontario, and Edmonton, Alberta; installation of facilities for the production of ReaLemon reconstituted lemon juice, at Ingersoll, Ontario, and the addition of equipment to manufacture Elsie Stix novelties, at the Belmont, Ontario ice cream plant. New laboratory facilities were built at Tillsonburg,


*In only its second year of operation, Hitachi Borden, a joint venture for the manufacture of Resinite PVC film in Japan, ran at full capacity, and a substantial expansion of facilities is planned.*

*Top: These 56 glistening "eyes" are part of the newest Borden can tester, manufactured by the International Division's Can Machinery operation. The eyes inspect can interiors for defects, using a highly sensitive light sensor that is not affected by an over-exposure to light and is able to discriminate between flange and body defects.*

*Bottom: Kontesse Camilla and Kontesse Josephine (sixth and seventh from left), twin daughters of Count Christian and Countess Anne Dort of Rosenborg and members of the Danish Royal Family, celebrated their fourth birthday at a party that featured Denmark's favorite chocolate milk, COCIO. The COCIO chocolate milk company of Esbjerg, Denmark, was acquired by Borden early in 1976.*

Ontario to serve both the quality assurance programs of Borden Canada and the food processing and food service industries of Canada. The new facility is one of the most modern, and best-equipped and staffed, food-safety testing laboratories in Canada.

Food sales continued to respond favorably to promotional and sales programs. The national introduction of ReaLemon powdered lemonade, following a successful market test in 1975, exceeded market share goals. Eagle Brand sweetened condensed milk and Cremelle non-dairy creamer showed significant volume increases. Morel bakery introduced a new soya protein-extended tourtiere that offers added nutrition at lower cost. Yogurt, backed by a major advertising campaign, registered a substantial gain in sales. (A commercial for peach yogurt won two first prizes in the U.S. Television Commercial Festival.)

During the year, Borden withdrew from the Montreal dairy market with the sale of its operations there.

The Canadian chemical company achieved record results in 1976, benefiting from strong sales of commercial and consumer products and, on the industrial side, from an upturn in the forest-products industries. A major contributor to the overall improvement was Resinite PVC film, the market for which was substantially broadened with the successful introduction of Resinite pallet wrap. Sales of patented Insulspray foam-in-place insulation more than doubled. A dry-strength resin for paper, introduced late in 1975, won increased acceptance from energy-conscious processors; it is used in the manufacture of recycled paper. Elmer's Professional Carpenter's wood glue was introduced early in 1977, supported by advertising in national magazines and leading trade publications.

*Above: Borden International's Brazilian food company introduced its first non-pasta product, a powdered spaghetti sauce, which was developed using Borden technology in dehydration. Here, it receives prime display space in a Sao Paulo supermarket amid packages of the affiliate's pasta.*

*Right: Borden Weber maintained its position as the leading commercial bakery in Germany, with the help of new products and new formulations.*

**Asia**

Sales of resin adhesives by the Malaysian and Philippine chemical operations moved well ahead of a year earlier in response to sharply higher demand for Asian plywood and veneers, a demand that was stimulated by the boom in industrial and residential construction in the Middle East and an improvement in housing starts in the United States. Facilities are being expanded to accommodate the increased call for Borden resins.

Meiji Borden, the joint-venture cheese company in Japan, broadened from its strong base in individually wrapped sliced cheese with the introduction of Borden Cheez Kisses. Production began in July, and the product was in full national distribution by September. Plans are already under way to increase capacity. Lady Borden ice cream, made under license by Meiji Milk Products Co., Ltd., continued as the leading brand of premium ice cream in Japan.

Hitachi Borden, a joint venture for the manufacture of Resinite PVC film in Japan, ran at full capacity in its second year of operation, and a substantial expansion of facilities is planned.

**Europe**

Borden Europe achieved record results in 1976 in spite of generally unsettled economic and political conditions. Rising inflation and unemployment and declining productivity were aggravated by currency devaluations, particularly in England, Spain, Ireland, and France.

The chemical affiliate in the United Kingdom was probably most affected by adverse economic factors, but nevertheless experienced its best year ever. The improvement was accomplished through production efficiencies, emphasis on exports, and a general hardening of sales, notably of industrial resins and Resinite film, where operations ran at full capacity. Excellent progress was made in retail and wholesale leisurewear, a field only recently entered; a separate department devoted to Borden leisure products opened during the year at world-famous Harrods in London.

The affiliate's consumer line was broadened with the addition, late in the year, of specialty paints and allied products under the Humbrol brand, which is well recognized in the hobby market.

Whole milk powder operations in Ireland and Denmark had outstanding results as worldwide markets for KLIM brand powder continued to show substantial growth. The can manufacturing plant at Athy, Ireland, which supplies the Irish powder plant at Mallow as well as other major can users in Ireland, ran on a full commercial basis after some start-up difficulties.

Diversification contributed to the excellent progress shown by the Danish affiliate at Esbjerg, a powder operation that several years ago extended its product line into several other Borden food items. ReaLemon

*The consumer line of Borden (UK) Ltd., the chemical affiliate in the United Kingdom, was broadened with the addition, late in the year, of specialty paints and allied products under the Humbrol brand, which is well recognized in the hobby market. Above is the Humbrol plant at Hull, England.*

reconstituted lemon juice, now processed at Esbjerg and shipped throughout Europe, enjoyed substantial sales growth, particularly in the United Kingdom. Food operations in Denmark were further expanded with the entry into the cheese market and the acquisition of COCIO, a leading company in the market for bottled, all-natural chocolate milk under its brand of the same name. Results for COCIO have been above expectations.

The Division's bakery in West Germany maintained its position as the leading commercial bakery in the country, with the help of new products, new formulas, and new labels. Manufacturing operations were more highly automated, and the full effects of the resultant improvement in efficiency are anticipated for 1977.

The food company in Spain introduced a new full line of prepared foods in test markets late in the year.

**Can Machinery**

The Can Machinery operation, headquartered at Randolph, N.Y., was a major beneficiary of a turnaround in the packaging industry and increased purchases for capital investment. The development of new can-testers, together with a broad line of can-making machinery backed by expert service, has earned Borden recognition as a major full-line supplier of equipment to the packaging industry.

**Export**

Results of export operations declined from the record levels of a year earlier. Sales of branded food and chemical products reached an all-time high, but were unable to offset a sharp, simultaneous drop in prices and demand for agricultural chemicals overseas.

The export group is responsible for the overseas marketing of all U.S.-made Borden products; consequently, its sales provide significant employment opportunities for the company's domestic operations, as well as contributing to the United States' balance of payments. Borden export operations extend to more than 130 countries.

# Borden Corporate Activities

*As part of the company's energy conservation program, members of the Energy Task Force regularly visit plants to check the efficiency of boiler operations. Above, Borden Foods' Operational Projects Manager Charles Grant, right, reviews the readings on a flue gas analyzer with Lewis Wadley, plant engineer at the Cracker Jack operation in Chicago. Almost all Borden operations have facilities for alternate fuels.*

ENERGY TASK FORCE—The Energy Task Force in 1976 was concerned primarily with day-to-day energy conservation, but also engaged in longer-range planning.

For smaller plants and offices, the Task Force published an Environmental/Energy Mini-Manual, which was distributed to coordinators to assist them in identifying and eliminating energy losses. At the largest energy-consuming plant, specialized engineering studies were conducted for the same purpose. The results of these studies are being used to determine the extent to which capital outlays are required to achieve energy savings.

The company met its internally imposed conservation goal for the year, with the Chemical and International Divisions exceeding their assigned objectives. The standards, developed in 1973, were revised in 1975 to take into account normal variations in production rates and utility costs.

In October, the Federal Energy Administration, under the Energy Policy and Conservation Act, imposed conservation-performance reporting for major energy users. The company was readily able to meet the requirements, using its existing internal reporting system. While energy goals have yet to be established by the FEA under the Act, the company expects, based on its performance to date, to equal or exceed the Federal targets for 1980. The expectation takes into account reconciling the company's base year of 1973 with the FEA's base year of 1972.

Long-range planning by the Task Force produced evaluations of energy supplies and equipment alternatives for the next ten years. These evaluations, periodically revised to account for new developments and predictive accuracy, will be used to incorporate optimum energy usage in new or modified plants and equipment.

As a logical progression in its comprehensive energy monitoring, the Task Force completed plans to add data on fleet fuel efficiency to its reporting programs. Beyond their purely informational value, the data will assist distribution managers in evaluating types of equipment and payload efficiencies.

DISTRIBUTION—Physical distribution efforts and activities in 1976 were directed towards better customer service, lower costs, improved distribution facilities, and energy efficiency in transportation. Applicable industry distribution costs increased approximately 10% overall; higher transportation charges and storage and handling expenses reflected primarily increased fuel prices, but also greater labor and equipment costs.

The Chemical Division established several "intermodal" distribution terminals to serve customers in the East and Midwest. Called intermodal because they use a mix of water, rail, and truck transportation facilities, the terminals provide improved customer service by storing required product quantities closer to customer distribution and manufacturing locations. The proximity enables customers to maintain smaller inventories and better control of their inventory requirements. Primary transportation costs are generally lower, in that larger volume shipments can be made between Borden manufacturing plants and the terminals on a time schedule that permits optimum use of common carrier equipment.

*The fourth in a series of prime-time television specials fully sponsored by Borden will be The Ringling Bros. and Barnum and Bailey Circus, shown at 8:00 p.m. EST, March 15, 1977, on the NBC network. Gene Kelly will be host of the hour-long program, which will have circus performers appearing in the commercials.*

*A unique tank car to transport a higher concentration of formaldehyde than the usual 37% was designed jointly by Borden Chemical and a leading equipment manufacturer. To control fluctuations in product temperature, the tanks are insulated with six inches of urethane foam and all outlets are protected with coffin covers. The new fleet operates from Borden Chemical's petrochemical complex at Geismar, La.*

A unique tank car to transport a higher concentration of formaldehyde, rather than the usual 37% concentration, was designed jointly by the Borden Chemical Division and a leading equipment manufacturer. To control fluctuations in product temperature, the tanks are insulated with six inches of urethane foam and all outlets are protected with coffin covers. The new tank car fleet operates from the Borden Chemical complex in Geismar, La.

A revised follow-up control system on all direct perishable shipments to customers from Borden Foods' manufacturing plants was implemented. The system is centrally operated from national administrative headquarters in Columbus, Ohio. It is a coordinated effort between Borden and selected motor common carriers to track customer shipments using the WATS telephone system and TWX communications.

A new fleet of tractors used for long distance transportation was placed in service at the company's Gary, Ind., truck terminal. The tractors have been designated as a primary test fleet for the purpose of developing equipment specifications. They are equipped with the most modern fuel economy features, including high torque rise engines, wind screens, fan clutches, fuel separators and filters, and radial tires.

A dollar-significant segment of energy costs results from the operation of the company's private truck fleets and automobiles. Fuel usage is directly related to the equipment specifications, preventive maintenance, and driver training. A selected group of experienced personnel from the Chemical, Dairy and Services, and Food Divisions and the Corporate Distribution department have been assigned to develop a formal procedure for reporting and controlling automotive fuel and maintenance costs in 1977. These personnel, by exchanging equipment operating experience, will also aid in the development of future equipment specifications.

An increased number and volume of physical distribution activities are now being recorded and reported on computers. Additional freight invoices are being pre-audited prior to payment, and loss and damage claims status reports for the Chemical and the Foods Divisions are provided monthly to management. In the Chemical Division, arrangements were completed for the installation of a computerized system for the storage, retrieval and publication of freight rates required by field operating personnel.

*A new fleet of tractors used for long distance transportation was placed in service at the company's Gary, Ind., truck terminal. Designated as a primary test fleet for the purpose of developing equipment specifications, the tractors are equipped with the most modern fuel economy features, including high torque rise engines, wind screens, fan clutches, fuel separators and filters, and radial tires.*

SAFETY AND LOSS-PREVENTION—The company's safety performance in 1976 was the best ever. Work injuries to employees declined 10% and vehicle accidents declined 8% from a year earlier. Borden, in comparison with other U.S. companies in its industry classification, now has a safety record 37% better than average for work injuries and 48% better than average for vehicle accidents, based on data from the National Safety Council.

In spite of inflation, and increased exposure owing to capital additions, property losses were the second-lowest in five years, bettered only in 1975.

Strict enforcement of the company's rigorous quality assurance standards cut the number of product liability claims by 20%, and claim costs by 33%, from a year earlier, counter to the trend for industry as a whole.

New security programs were carried out at several plant locations under the supervision of the corporate security department, established in 1974. The programs—covering security surveys, access controls, improved lighting, alarm systems, and closed circuit cameras—increased the level of protection and in several instances reduced the number of security guards needed. In addition, the department conducted security audits and analyses at several locations, thereby reducing exposure to asset loss.

Significant progress was made under the company's industrial hygiene program in more effectively identifying, evaluating, and controlling health hazards in the workplace. To ensure the best working conditions for employees, more extensive monitoring was undertaken, and new methods were introduced that reflect advances in monitoring technology.

SOCIAL RESPONSIBILITY—The company during the year broadened and intensified its social activities, with emphasis on improving opportunities for advancement by minorities and women.

There was a further increase in the number and percentages of women and racial minorities moving up in several professional categories such as product marketing, accounting, technical services, and public/consumer affairs.

The corporate staff responsible for administration of Equal Employment Opportunity and Affirmative Action programs was enlarged to assist Borden managers in improving their employment practices as related to community needs and with regard to opportunities for the handicapped and veterans as well as women and racial minorities. The staff has also begun a series of field training programs designed to educate, alert, and sensitize all levels of management to opportunities that may arise

within their areas of responsibility to further the company's equal employment and affirmative action goals.

Some $10 million worth of goods and services were purchased from minority businesses during the year under the company's minority purchasing program. Steps were also taken that should materially improve the size and effectiveness of the program in 1977 and subsequent years. With information assembled from the field and from its own files, the corporate purchasing department has prepared a business directory identifying, by type of product or service offered, all minority vendors in Borden plant communities. The directory also assesses the volume of Borden business each vendor is capable of handling, and its prospects for expanding to take on additional business. Vendors that appear to have good growth potential because of their quality of management and quality of goods or services, but whose prospects are otherwise limited by under-capitalization, will be considered for some form of financial assistance, such as pre-payment of invoices to improve cash flow.

The company during the year developed a pilot minority marketing program with the assistance of a minority advertising agency. A group of black marketing students from Central State and Wilberforce Universities in Ohio were assigned to Wyler brokers in five major cities. For ten weeks during the summer the students visited neighborhood stores, checked stocks of Wyler's drink mixes, tabulated types of purchases, interviewed customers on package and flavor preferences and product usage, and helped prepare special advertising copy. They received college credits for their work, in addition to salaries and mileage allowances. The program will be extended to other Foods Division products and possibly to consumer products of the Chemical Division in 1977.

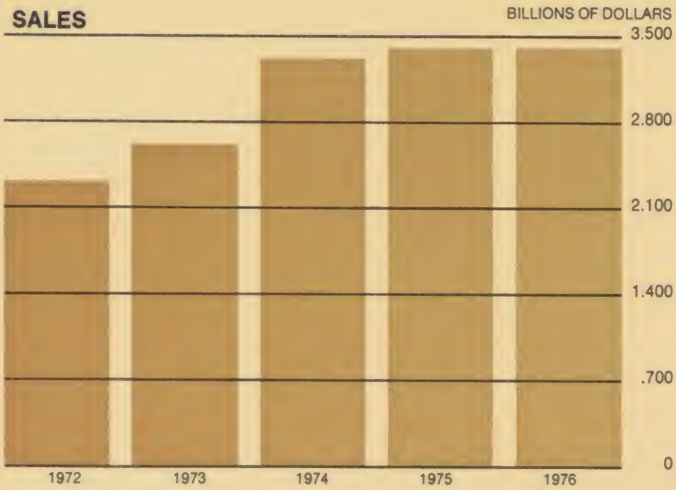
The Borden Foundation, Inc., in addition to its many contributions to health-care programs, United Way campaigns, and secondary- and higher-education projects, provided major grants to assist minority students. These included grants to Universidad Boricua, New York City (an accredited bilingual Puerto Rican institution attended primarily by working adults), for general scholarship assistance; Spelman College, Atlanta, Ga., for scholarships in bionutrition; United Negro College Fund, unrestricted; A Better Chance (ABC), for scholarship support for low-income, gifted minority students at the preparatory school level, and scholarships for disadvantaged minority students in the fields of journalism, accounting, food science and nutrition, and engineering.

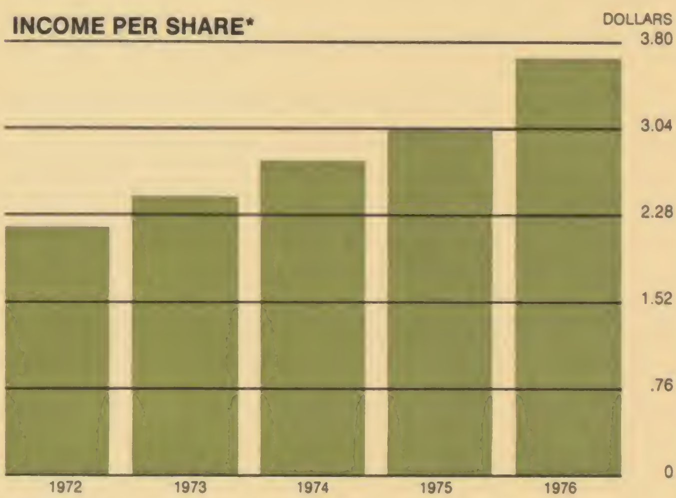
*Under a pilot minority marketing program developed during the year, black marketing students from Central State and Wilberforce Universities in Ohio were assigned for ten weeks during the summer to Wyler brokers in five major cities, checking stocks, tabulating purchases, interviewing customers, and preparing special advertising copy. They received college credits as well as salaries. Above, candidates for the program attend a marketing course at Central State University.*

EMPLOYEE RELATIONS—The company's labor relations were generally favorable throughout the year. The few work stoppages that occurred were either of short duration or had a minimal effect on operations. The average increase in labor costs spread over all contracts settled during the year was competitive with national averages for manufacturing concerns in the United States and Canada.

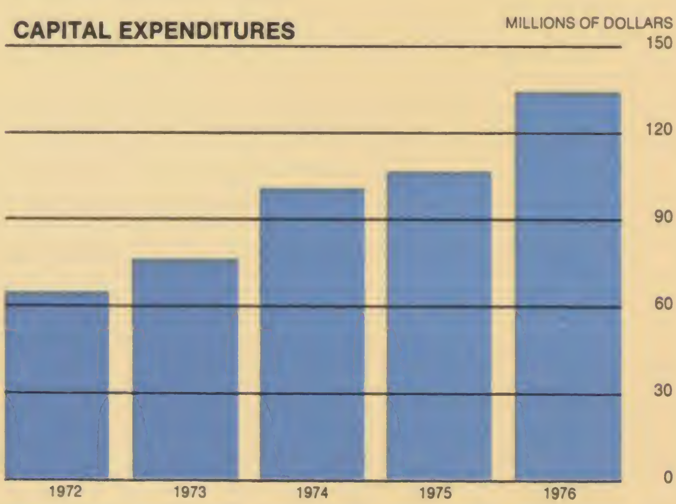
"Focus on Health," a health education program for administrative headquarters employees in Columbus, Ohio, that also serves as a pilot program for other Borden locations, completed its fifth year. In ten sessions conducted with the help of local medical associations, police and fire departments, and the Red Cross, employees on a voluntary basis took part in cancer and hypertension screening programs, received training in first aid and CPR (cardial-pulmonary resuscitation), were inoculated against flu, and contributed to a blood donor program. Spouses of employees were invited to participate in the cancer screening programs.

# Financial Review and Management Analysis




*PRIMARY




**SALES AND EARNINGS** — Net income increased 21.4% to $112,807,000 from the previous high of $92,884,000 in 1975. Primary earnings per share increased 20.9% to $3.64 from the previous high of $3.01. Fully diluted earnings per share, reflecting two outstanding convertible Eurodollar debenture issues, were $3.48 compared with $2.88 in 1975. Net income in 1975 was 10.8% over the record level of 1974 and primary earnings per share were 10.7% over 1974.

Sales increased to $3,381,075,000 in 1976 compared to the 1975 record of $3,367,243,000. The 1975 amount represented an increase of 3.1% over 1974.

Interest expense increased in 1976 as compared to 1975 primarily because of additional borrowings in the current year. The increase in 1975 as compared to 1974 was primarily due to the $100 million in 30 year 8½ percent sinking fund debentures issued early in 1974.

Pretax income amounted to $204,107,000, up 19.7% from $170,484,000 in 1975. Federal, foreign, and state and local income taxes totaled $91,300,000 compared with $77,600,000 in 1975. The investment tax credit was $8,150,000 in 1976 against $5,500,000 in the previous year. Pretax income increased 7.3% in 1975 as compared to 1974. Income taxes in 1974 were $75,000,000 and the investment tax credit aggregated $3,700,000.

**NET WORKING CAPITAL** — The company maintains working capital which is deemed adequate to assure its liquidity. Efforts are directed toward maximizing internal cash generations and maintaining the lowest reasonable debt levels. There are programs for close monitoring of the receivables position, maintenance of stringent inventory controls, and the application of cash management techniques. Such programs have enabled the company to minimize its short-term borrowings and to maintain a strong liquidity position.

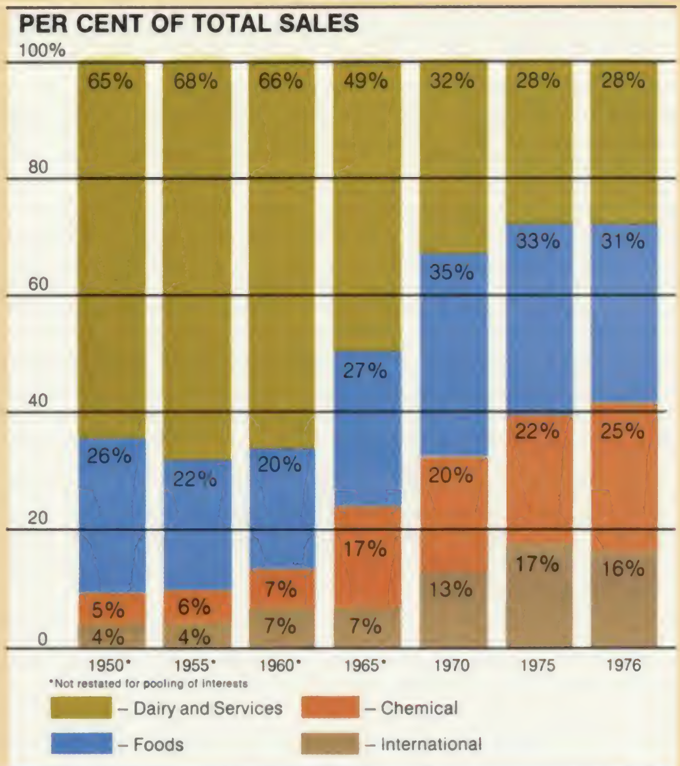
**CAPITAL EXPENDITURES** — Capital expenditures for new and improved facilities amounted to $134,153,000 as compared to $104,079,000 in 1975. Depreciation, depletion, and amortization aggregated $56,626,000 against $51,594,000 in the previous year. In addition, leases, primarily for equipment such as motor vehicles and ice cream cabinets, were effected for $24,153,000 and $23,076,000 in 1976 and 1975, respectively.

**DIVIDENDS** — The Company completed 78 years of uninterrupted dividends, dating back to its incorporation in 1899, with the payment in December of the 267th consecutive dividend on Common Stock.

Cash dividends of $41,648,000 were paid on the Company's capital stock in 1976, compared with $39,901,000 in 1975. Dividends on Common Stock were $41,392,000 at $1.35 per share and on Preferred Stock — Series B, $256,000 at $1.32 per share. The Preferred Stock — Series B is convertible at any time into Common Stock at the rate of 1.1 shares of Common for each share of Preferred.

**TRENDS BY BUSINESS AREA** — A summary of sales and operating income by the Company's four major operating divisions is shown on the following page.

The Foods Division's sales declined 5.9% in 1976 as compared to 1975 while operating income increased 72.9%. Operating income as a percent of sales increased from 3.0% in 1975 to 5.5% in 1976. Unit sales overall increased in the division with declining dollar sales being the result of generally lower sales prices, particularly for sugar and sugar based products. On a year-to-year comparative basis, the swing from loss to profit in the sugar refining operations was a substantial




factor in the division's improved operating income and in the improvement of operating income as a percent of sales. Lower operating income of the division in 1975 as compared to 1974 was also primarily a result of the loss in sugar refining operations because of a decline in the sugar market and sugar consumption.

The Dairy and Services Division's sales increased 2.5% over 1975 and operating income increased 21.6%. The division achieved a slight increase in unit sales of milk products and a substantial increase in unit sales of its specialty operations such as bottled water, bottled soft drinks and milk-based products for the industrial trade in 1976 as compared to 1975. Unit margins were adversely affected in 1976 on milk and ice cream products because of escalating costs of raw milk and butter-fat which were not completely recovered through higher selling prices. Overall, operating income as a percent of sales in 1975, as compared to both 1976 and 1974, was adversely affected by costs associated with the withdrawal from the milk business in the Chicago area.

In the Chemical Division, sales in 1976 were 14.2% higher than in 1975 and operating income increased 9.1%. Sales and operating income increased substantially in thermosetting and thermoplastic resins, packaging adhesives and foundry resins, Resinite packaging film, vinyl materials and coated fabrics. Demand for these products was aided by a substantial improvement in the housing and automotive markets as well as the upturn in the general economy. Shipments of fertilizer were at an all time high and resulted in increased dollar sales but a drop in selling prices resulted in lower operating income. During 1975, both sales and operating income increased over 1974. Higher volume and prices in the fertilizer operations and an outstanding year in the petrochemical operations at Geismar, La. were the main contributors to this improvement.

The International Division's operating income rose 3.4% to $53,057,000 in 1976 and sales declined 8.1% to $545,931,000. The decline in sales is primarily a result of lower prices and volume for export fertilizer sales, withdrawal from the Montreal dairy market and the impact of currency fluctuations. With respect to operating income the growth trend of prior years was not as great in 1976 primarily because of a sharp drop in export fertilizer prices and demand. Operating income in 1975 increased 28.6% over the 1974 level. Major contributions to this change were the pasta and chemical operations in Brazil, worldwide sales of powdered whole milk and record operating levels in export operations.

For additional details, see pages 8 through 28.

## FIVE YEAR COMPARISON OF SALES AND OPERATING INCOME BY BUSINESS AREA (DOLLARS IN THOUSANDS)*

| | 1976 | | 1975 | | 1974 | 1973 | 1972 |
|---|---|---|---|---|---|---|---|
| **SALES:** | | | | | | | |
| Foods | $1,036,095 | 31% | $1,101,370 | 33% | $1,114,368 | $ 811,496 | $ 734,884 |
| Dairy and Services | 965,486 | 28 | 941,679 | 28 | 863,677 | 728,356 | 658,870 |
| Chemical | 833,563 | 25 | 730,163 | 22 | 701,476 | 559,973 | 471,057 |
| International (including exports) | 545,931 | 16 | 594,031 | 17 | 584,981 | 454,169 | 384,213 |
| **Total** | $3,381,075 | 100% | $3,367,243 | 100% | $3,264,502 | $2,553,994 | $2,249,024 |
| **OPERATING INCOME:** | | | | | | | |
| Foods | $ 56,581 | 22% | $ 32,731 | 15% | $ 59,368 | $ 51,103 | $ 52,031 |
| Dairy and Services | 42,788 | 16 | 35,185 | 16 | 33,091 | 30,200 | 28,352 |
| Chemical | 108,086 | 42 | 99,067 | 45 | 80,266 | 52,899 | 40,872 |
| International (including exports) | 53,057 | 20 | 51,307 | 24 | 39,903 | 34,807 | 30,822 |
| **Total** | 260,512 | 100% | 218,290 | 100% | 212,628 | 169,009 | 152,077 |
| Other income and expenses not allocable to operations, and taxes | (147,705) | | (125,406) | | (128,783) | (96,047) | (84,600) |
| **NET INCOME** | $ 112,807 | | $ 92,884 | | $ 83,845 | $ 72,962 | $ 67,477 |

**Prior year data has been restated to reflect certain 1976 shifts of organizational responsibility.*

# FIVE-YEAR FINANCIAL SUMMARY

BORDEN, INC.

*(All dollar and share figures in thousands — except market price and per share statistics)*

| SUMMARY OF EARNINGS | 1976 | 1975 | 1974 | 1973 | 1972 |
|---|---|---|---|---|---|
| Net sales | $3,381,075 | $3,367,243 | $3,264,502 | $2,553,994 | $2,249,024 |
| Cost of goods sold | $2,675,866 | $2,732,007 | $2,677,179 | $2,073,720 | $1,821,141 |
| Interest expense | $ 29,902 | $ 26,364 | $ 25,636 | $ 17,724 | $ 16,325 |
| Income taxes | $ 91,300 | $ 77,600 | $ 75,000 | $ 62,600 | $ 57,442 |
| Net income | $ 112,807 | $ 92,884 | $ 83,845 | $ 72,962 | $ 67,477 |
| Net income per common share and equivalent — Primary | $3.64 | $3.01 | $2.72 | $2.37 | $2.18 |
| Fully diluted | $3.48 | $2.88 | $2.61 | $2.28 | $2.13 |
| Dividends per—Common share | $1.35 | $1.30 | $1.25 | $1.20 | $1.20 |
| Preferred series A share | | $ .65 | $ .625 | $ .60 | $ .60 |
| Preferred series B share | $1.32 | $1.32 | $1.32 | $1.32 | $1.32 |
| Average number of common shares and equivalents assumed outstanding during the year for calculation of — | | | | | |
| Primary earnings per share | 30,998 | 30,886 | 30,827 | 30,810 | 30,946 |
| Fully diluted earnings per share | 32,991 | 32,882 | 32,823 | 32,806 | 32,288 |
| Percent of net income to sales | 3.3% | 2.8% | 2.6% | 2.9% | 3.0% |
| **FINANCIAL STATISTICS** | | | | | |
| Capital expenditures | $ 134,153 | $ 104,079 | $ 100,243 | $ 76,488 | $ 64,533 |
| Inventories | $ 434,184 | $ 407,065 | $ 489,403 | $ 330,880 | $ 284,475 |
| Property, plant and equipment | $ 644,238 | $ 583,481 | $ 566,610 | $ 519,006 | $ 482,296 |
| Depreciation, depletion, and amortization | $ 56,626 | $ 51,594 | $ 50,237 | $ 46,099 | $ 43,899 |
| Current assets | $ 963,640 | $ 864,747 | $ 883,285 | $ 715,673 | $ 685,099 |
| Current liabilities | $ 441,300 | $ 391,255 | $ 432,987 | $ 369,291 | $ 306,276 |
| Working capital | $ 522,340 | $ 473,492 | $ 450,298 | $ 346,382 | $ 378,823 |
| Current ratio | 2.2:1 | 2.2:1 | 2.0:1 | 1.9:1 | 2.2:1 |
| Long-term debt | $ 348,083 | $ 335,382 | $ 340,800 | $ 235,297 | $ 250,365 |
| Debt-to-equity percent | 37% | 39% | 42% | 31% | 34% |
| Shareholders' equity | $ 938,211 | $ 863,560 | $ 810,431 | $ 764,817 | $ 731,383 |
| Liquidating value of preferred stock | (4,716) | (7,173) | (10,817) | (17,525) | (26,566) |
| Common shareholders' equity | $ 933,495 | $ 856,387 | $ 799,614 | $ 747,292 | $ 704,817 |
| Equity per common share at year end | $30.35 | $28.05 | $26.35 | $24.87 | $23.68 |
| **SHAREHOLDERS' DATA** | | | | | |
| Outstanding shares at year end — Common | 30,760 | 30,526 | 30,342 | 30,045 | 29,765 |
| Preferred series A | | | 158 | 315 | 473 |
| Preferred series B | 163 | 248 | 265 | 388 | 592 |
| Market price of common stock — At year end | $34 | $27 | $20 | $21 | $32 |
| Range during year | $26–34 | $21–29 | $15–25 | $19–32 | $25–32 |
| Number of common shareholders | 65,359 | 67,167 | 67,243 | 67,552 | 67,333 |
| **EMPLOYEES' DATA** | | | | | |
| Payroll | $ 459,500 | $ 436,900 | $ 403,800 | $ 374,600 | $ 369,400 |
| Average number of employees | 40,400 | 42,100 | 46,700 | 46,500 | 46,900 |

# CONSOLIDATED STATEMENTS OF INCOME

BORDEN, INC.

| Year Ended December 31 | 1976 | 1975 |
|---|---|---|
| **NET SALES** | $3,381,074,656 | $3,367,243,343 |
| **COSTS AND EXPENSES:** | | |
| Cost of goods sold | 2,675,865,819 | 2,732,006,596 |
| Selling, general and administrative expenses | 484,812,165 | 451,416,790 |
| Equity in affiliates, interest income, royalties, net | (13,612,746) | (13,027,407) |
| Interest expense | 29,902,188 | 26,363,669 |
| Income taxes | 91,300,000 | 77,600,000 |
| | 3,268,267,426 | 3,274,359,648 |
| **NET INCOME** | $ 112,807,230 | $ 92,883,695 |
| Average number of common shares and equivalents assumed outstanding during the year | 30,997,842 | 30,885,755 |
| **NET INCOME PER SHARE** | | |
| Primary | $ 3.64 | $ 3.01 |
| Fully diluted | 3.48 | 2.88 |
| **CASH DIVIDENDS PER COMMON SHARE** | 1.35 | 1.30 |

*See accompanying Notes To Consolidated Financial Statements*

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BORDEN, INC.

| Year Ended December 31 | 1976 | 1975 |
|---|---|---|
| **FINANCIAL RESOURCES PROVIDED** | | |
| Operations: | | |
| Net Income | $ 112,807,230 | $ 92,883,695 |
| Depreciation, depletion and amortization | 56,625,773 | 51,593,878 |
| Deferred income taxes | 9,400,000 | 3,100,000 |
| Amortization and write-off of intangible assets and other non-working capital items, net | 3,550,996 | 6,354,608 |
| Total provided from operations | 182,383,999 | 153,932,181 |
| Property disposals | 26,579,811 | 22,178,057 |
| Other debt financing | 24,692,985 | 6,382,455 |
| Decrease (increase) in long-term investments | 11,176,744 | (4,169,526) |
| Other changes in non-current assets and liabilities, net | 8,023,487 | (4,247,600) |
| **Total Resources Provided** | 252,857,026 | 174,075,567 |
| **FINANCIAL RESOURCES APPLIED** | | |
| Cash dividends | 41,647,818 | 39,900,688 |
| Reduction in long-term debt | 13,321,143 | 6,902,381 |
| Capital expenditures | 134,153,098 | 104,078,531 |
| Purchases of businesses, net of working capital acquired | 14,887,372 | |
| **Total Resources Applied** | 204,009,431 | 150,881,600 |
| **Increase in Working Capital** | $ 48,847,595 | $ 23,193,967 |
| Details of increase (decrease) in working capital: | | |
| Cash and certificates of deposit | $ 59,921,237 | $ 48,207,122 |
| Accounts receivable | 11,851,712 | 15,592,650 |
| Inventories | 27,119,009 | (82,337,701) |
| Current maturities of long-term debt | (5,118,869) | 4,935,860 |
| Accounts and drafts payable | (3,369,348) | 4,536,982 |
| Taxes, payrolls, and other liabilities | (41,556,146) | 32,259,054 |
| **Increase in Working Capital** | $ 48,847,595 | $ 23,193,967 |

*See accompanying Notes To Consolidated Financial Statements*

# CONSOLIDATED BALANCE SHEETS

BORDEN, INC.

## ASSETS

| December 31 | 1976 | 1975 |
|---|---|---|
| **Current Assets** | | |
| Cash (including time deposits of $106,998,000 in 1976 and $45,816,000 in 1975) | $ 199,179,356 | $ 126,322,119 |
| Certificates of deposit | 8,988,000 | 21,924,000 |
| Accounts receivable (less allowance for doubtful accounts—$10,858,000 in 1976 and $10,887,000 in 1975) | 321,288,026 | 309,436,314 |
| Inventories: | | |
| Finished and in process goods | 300,840,918 | 280,318,792 |
| Raw materials and supplies | 133,343,100 | 126,746,217 |
| **Total Current Assets** | 963,639,400 | 864,747,442 |
| **Investments and Other Assets** | | |
| Investments in and advances to affiliated companies (at cost plus equity in undistributed income) | 26,019,911 | 36,428,933 |
| Miscellaneous investments and receivables (at cost or less) | 13,732,649 | 13,157,138 |
| Deferred charges | 19,766,985 | 21,184,687 |
| | 59,519,545 | 70,770,758 |
| **Property and Equipment** | | |
| Land | 36,074,134 | 37,073,341 |
| Buildings | 263,478,918 | 261,641,276 |
| Machinery and equipment | 795,159,002 | 710,716,185 |
| | 1,094,712,054 | 1,009,430,802 |
| **Less Accumulated Depreciation** | (450,474,411) | (425,949,622) |
| | 644,237,643 | 583,481,180 |
| **Intangibles Resulting from Business Acquisitions** | 141,082,821 | 137,472,304 |
| | $1,808,479,409 | $1,656,471,684 |

*See accompanying Notes To Consolidated Financial Statements*

## LIABILITIES AND SHAREHOLDERS' EQUITY

| December 31 | 1976 | 1975 |
|---|---|---|
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 10,872,758 | $ 5,753,889 |
| Accounts and drafts payable | 248,641,145 | 245,271,797 |
| Taxes, payrolls and other liabilities | 181,785,670 | 140,229,524 |
| **Total Current Liabilities** | 441,299,573 | 391,255,210 |
| **Long-Term Debt** | 348,083,480 | 335,381,638 |
| **Deferred Income Taxes** | 74,658,072 | 60,158,072 |
| **Other Long-Term Liabilities** | 3,145,818 | 3,215,191 |
| **Minority Interests in Consolidated Subsidiaries** | 3,081,572 | 2,901,490 |
| **SHAREHOLDERS' EQUITY** | | |
| **Capital Stock** | | |
| Preferred Stock — no par value | | |
| Authorized 10,000,000 shares | | |
| Issued Series B Convertible—163,306 shares and 248,366 shares respectively (involuntary liquidating value of $4,716,277 or $28.88 per share at December 31, 1976) | 673,637 | 1,024,510 |
| Common Stock — $3.75 par value | | |
| Authorized 60,000,000 shares | | |
| Issued 30,760,053 shares and 30,527,184 shares respectively | 115,350,199 | 114,476,940 |
| **Paid-In Capital** | 186,957,873 | 184,008,408 |
| **Retained Earnings** | 635,233,604 | 564,074,192 |
| | 938,215,313 | 863,584,050 |
| **Less Common Stock in Treasury** (at cost) — 156 shares and 846 shares respectively | (4,419) | (23,967) |
| **Total Shareholders' Equity** | 938,210,894 | 863,560,083 |
| | $1,808,479,409 | $1,656,471,684 |

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

BORDEN, INC.

FOR THE TWO YEARS ENDED DECEMBER 31, 1976

| | CAPITAL STOCK ISSUED | | | | | |
|---|---|---|---|---|---|---|
| | PREFERRED SERIES A | PREFERRED SERIES B | COMMON | PAID-IN CAPITAL | RETAINED EARNINGS | TREASURY STOCK |
| Balance, December 31, 1974.. | $590,940 | $1,094,915 | $113,809,939 | $184,057,713 | $511,091,185 | $(214,104) |
| Net income ................ | | | | | 92,883,695 | |
| Cash dividends— | | | | | | |
| Common stock ......... | | | | | (39,454,764) | |
| Preferred series A ....... | | | | | (102,430) | |
| Preferred series B ....... | | | | | (343,494) | |
| Preferred series A stock converted ................ | (590,940) | | 590,940 | | | |
| Preferred series B stock converted ................ | | (70,405) | 70,380 | | | |
| Common stock issued for exercised stock options .... | | | 5,681 | 25,445 | | |
| Treasury stock issued for exercised stock options .... | | | | (74,750) | | 190,137 |
| Balance, December 31, 1975.. | | 1,024,510 | 114,476,940 | 184,008,408 | 564,074,192 | (23,967) |
| Net income ................ | | | | | 112,807,230 | |
| Cash dividends— | | | | | | |
| Common stock ......... | | | | | (41,391,491) | |
| Preferred series B ....... | | | | | (256,327) | |
| Preferred series B stock converted ................ | | (350,873) | 350,831 | | | |
| Common stock issued for exercised stock options .... | | | 470,648 | 2,567,402 | | |
| Treasury stock issued under Management Incentive Plan | | | | (1,109) | | 19,548 |
| 5% Convertible debentures converted ................ | | | 51,780 | 383,172 | | |
| Balance, December 31, 1976.. | | $ 673,637 | $115,350,199 | $186,957,873 | $635,233,604 | $ (4,419) |

*See accompanying Notes To Consolidated Financial Statements*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

**Principles of Consolidation** — The consolidated financial statements include the accounts of Borden, Inc. and all subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is currently included in income. The carrying value of these companies approximates their underlying net assets. Investments of less than 20% ownership are carried at cost.

**Foreign Currency Transactions and Financial Statements** — The accounts of foreign affiliates are translated into United States dollars in accordance with Financial Accounting Standards Board Statement No. 8.

**Intangibles** — The excess cost of investments over net tangible assets of businesses acquired are carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized over a forty-year period.

**Inventories** — Inventories are stated at the lower of cost or market. Cost is determined generally on the average cost and first-in, first-out methods.

**Property and Equipment** — Land, buildings, and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings — 3%; machinery and equipment — 7%).

Major renewals and betterments are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while gains and losses from other retirements and disposals are credited or charged to income.

The Company leases certain plant and equipment under both operating and financing lease agreements (leases covering 75% of economic life of related assets or which reasonably assure lessor recovery of his investment). Certain leases which are in substance installment purchases of the related assets have been capitalized. Payments on leases covering plant and equipment which the Company does not intend to purchase at the expiration of the lease are expensed as incurred, whether represented by an operating lease or a financing lease agreement.

**Income Taxes** — The provision for income taxes includes federal, foreign, and state and local taxes currently payable and deferred taxes arising from timing differences between income for financial statement and income tax purposes. These timing differences principally result from additional deductions available through the use of accelerated methods of depreciation for tax purposes.

Investment tax credits are applied as reductions of income taxes in the year earned.

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries or on the earnings of a Domestic International Sales Corporation (DISC) that are eligible for tax deferral because the Company presently plans to reinvest such earnings indefinitely.

**Pension Plans** — Substantially all of the Company's domestic employees are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expense for the Company's plans comprises current service costs and amortization of prior service costs, generally over a thirty year period. It is the Company's policy to fund pension costs accrued for qualified plans.

**Development and Promotion Expenses** — Research and development expenditures are expensed as incurred as are advertising and promotion expenditures.

**Earnings Per Share** — Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Convertible Preferred Stocks and Stock Options) assumed outstanding during the year of computation.

Fully diluted earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents assumed outstanding during the year, as if the Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

## NOTE 2 — FOREIGN AFFILIATES

After translation into United States dollars, the Company's proportionate share of net assets of foreign affiliates included in the consolidated financial statements was $163,000,000 at December 31, 1976 compared to $158,000,000 at December 31, 1975. Net sales and operating income of international operations, including exports, are presented in the Financial Review and Management Analysis section on page 30.

Realized and unrealized net exchange losses aggregating $2,353,000 and $1,047,000 were charged against income in 1976 and 1975, respectively.

## NOTE 3 — LONG-TERM DEBT, LEASE OBLIGATIONS AND COMMITMENTS

Long-term debt outstanding at December 31, 1976 and 1975 is as follows (dollars in thousands):

| | 1976 | | 1975 | |
|---|---|---|---|---|
| | Long-Term | Due Within One Year | Long-Term | Due Within One Year |
| Sinking Fund Debentures | | | | |
| 2⅞%, due 1981 | $ 28,750 | | $ 30,000 | |
| 7¾%, due 1984 | | | 875 | |
| 4⅜%, due 1991 | 28,000 | $ 2,000 | 30,000 | $ 2,000 |
| 5¾%, due 1997 | 75,000 | | 75,000 | |
| 8½%, due 2004 | 100,000 | | 100,000 | |
| Debentures repurchased | (3,807) | (35) | (3,098) | (1,808) |
| Promissory Notes | | | | |
| 5⅜%, due 1981 | 2,900 | 800 | 3,700 | 800 |
| 8¼%, due 1985 | 12,234 | | 11,436 | |
| 7⅝%, due 1986 | 8,156 | | 7,624 | |
| Other borrowings | 37,285 | 8,108 | 19,845 | 4,762 |
| Convertible Debentures | | | | |
| 6¾%, due 1991 | 30,000 | | 30,000 | |
| 5%, due 1992 | 29,565 | | 30,000 | |
| | $348,083 | $ 10,873 | $335,382 | $ 5,754 |

The 6¾% Convertible Debentures (Eurodollar obligations) are convertible into Common Shares of Borden, Inc. at $28.75 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1986.

The 5% Convertible Debentures (Eurodollar obligations) are convertible into Common Shares of Borden, Inc. at $31.50 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1987.

Aggregate maturities of long-term debt and minimum annual rentals on leased properties are as follows (dollars in thousands):

| | | Minimum Rentals — Non-Capitalized Leases | |
|---|---|---|---|
| | Long-Term Debt** | Operating Leases | Financing Leases |
| 1977 | $ 10,873 | $ 11,873 | $ 19,992 |
| 1978 | 13,336 | 10,587 | 17,627 |
| 1979 | 12,578 | 8,960 | 14,956 |
| 1980 | 12,018 | 7,706 | 11,186 |
| 1981 | 37,754 | 6,831 | 8,502 |
| 1982 - 1986* | 59,556 | 18,394 | 13,752 |
| 1987 - 1991* | 83,381 | 2,270 | 33 |
| 1992 - 1996* | 72,815 | 271 | |
| 1997 and beyond* | 56,645 | 274 | |

*Figures represent combined totals for all years.

**Net of Debentures repurchased.

The present value of minimum rentals under non-capitalized financing leases, at weighted average interest rates of approximately 7.0% for 1976 and 7.2% for 1975, aggregated $72,000,000 and $67,000,000 at December 31, 1976 and 1975, respectively. These leases cover primarily transportation equipment. Net income would be impacted by less than 1% for 1976 and 1975 if these leases were capitalized and accounted for accordingly, rather than being accounted for as expense when the payment is incurred.

The Company has unused lines of credit for short-term financing needs, aggregating approximately $153,000,000 at December 31, 1976, with interest rates approximating the prime rate in effect at date of use.

The Company was guarantor of loans aggregating approximately $21,000,000 at December 31, 1976.

Pursuant to the arrangements covering the above lease agreements, lines of credit, and certain loan guarantees, the Company has agreed to maintain minimum average cash balances aggregating approximately $18,000,000 with various commercial banks. The Company attributes no cost to such arrangements as these amounts do not exceed balances which would be required for normal operating needs.

## NOTE 4 — INCOME TAXES

Comparative analyses of the provisions for income taxes follow:

| | 1976 | 1975 |
|---|---|---|
| Currently payable | | |
| United States | $70,100,000 | $59,800,000 |
| Investment tax credit | (8,150,000) | (5,500,000) |
| Foreign | 9,000,000 | 10,500,000 |
| State and local | 10,950,000 | 9,700,000 |
| | 81,900,000 | 74,500,000 |
| Deferred | | |
| Domestic | 8,000,000 | 2,400,000 |
| Foreign | 1,400,000 | 700,000 |
| | 9,400,000 | 3,100,000 |
| | $91,300,000 | $77,600,000 |

Total tax expense represents effective tax rates of 44.7% and 45.5% for 1976 and 1975, respectively, compared to the United States statutory tax rate of 48%. The lower effective tax rates are attributable to the investment tax credit plus other offsetting items such as the differences between foreign and United States rates, after federal tax costs of state and local taxes and qualified export benefits.

The cumulative amount of foreign and DISC earnings on which United States taxes have not been provided aggregated approximately $40,000,000 at December 31, 1976, exclusive of those amounts which if remitted would result in no tax by utilization of available foreign tax credits.

## NOTE 5 — PENSION PLANS

The charges to operations under the Company's pension plans were $14,500,000 in 1976 and $10,400,000 in 1975. The actuarially computed value of vested benefits under these plans as of January 1, 1976 exceeded the total pension fund and balance sheet accruals by approximately $66,700,000, an increase of $26,400,000 over 1975. The increases in pension expense and excess vested benefits are primarily the result of improved benefits for active and retired employees.

Operations were charged approximately $4,700,000 in 1976 and $4,800,000 in 1975 primarily for payments to pension trusts on behalf of certain employees covered by collective bargaining units who have not elected to participate in the Company's plans and of retirement allowances paid to former employees under arrangements in effect prior to the inception of the present plans.

## NOTE 6 — SHAREHOLDERS' EQUITY

Each of the 163,306 shares of Preferred Stock — Series B, bears an annual cumulative dividend of $1.32, is convertible into 1.1 common shares, and is presently redeemable at the Company's option at $42. The redemption price will be reduced annually by $1 per share until July 29, 1979.

As of January 1, 1976, 530,309 shares of Common Stock of the Company were reserved for unexercised stock options at prices ranging from $18.46 to $30.75 per share. During 1976, options for 132,650 shares were granted at $31.00 per share and options for 4,669 shares expired or were cancelled. Options for 125,506 shares were exercised, at prices ranging from $18.46 to $23.96 per share, leaving 532,784 shares reserved for unexercised options at prices ranging from $19.44 per share to $31.00 per share as of December 31, 1976. In addition, there were 234,050 shares available for future grants at that date.

At December 31, 1976, 179,637 shares were reserved for conversion of Preferred Stock — Series B. In addition, 1,982,051 shares were reserved for issuance upon conversion of the 6¾% and 5% Convertible Debentures discussed in Note 3 and 60,115 shares were reserved pursuant to the Management Incentive Plan.

## NOTE 7 — SUPPLEMENTAL INCOME STATEMENT INFORMATION

Set forth below is a comparative summary of certain income and expense items (dollars in thousands):

| | 1976 | 1975 |
|---|---|---|
| Equity in net earnings of 20% to 50% owned companies | $ 1,343 | $ 4,104 |
| Depreciation, depletion, and amortization | 56,626 | 51,594 |
| Maintenance and repairs | 88,151 | 82,930 |
| Amortization of intangible assets | 1,102 | 1,073 |
| Advertising and promotion | 140,105 | 116,149 |
| Research and development | 14,763 | 13,629 |
| Taxes other than income taxes | 48,370 | 46,055 |
| Rents | | |
| Operating leases | 21,359 | 20,188 |
| Non-capitalized financing leases | 19,343 | 17,414 |
| Royalties | 2,248 | 3,775 |

## NOTE 8 — EARNINGS PER SHARE

The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

| | 1976 | 1975 |
|---|---|---|
| Common Shares | 30,667,214 | 30,327,113 |
| Convertible Preferred: | | |
| Series A | | 144,452 |
| Series B | 212,476 | 285,367 |
| Stock options and incentive compensation | 118,152 | 128,823 |
| Total for primary calculation | 30,997,842 | 30,885,755 |
| Convertible Debentures: | | |
| 6¾% | 1,043,479 | 1,043,479 |
| 5% | 949,245 | 952,380 |
| Total for fully diluted calculation | 32,990,566 | 32,881,614 |

## NOTE 9 — CURRENT REPLACEMENT COSTS (UNAUDITED)

In recent years production costs have increased as a result of inflation. Generally, the Company has been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage on sales.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a greater capital investment than was required to purchase the assets which are being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets.

The Company's annual report on Form 10-K contains specific information with respect to year-end 1976 replacement cost of inventories and productive capacity (generally buildings, and machinery and equipment) and the approximate effect which replacement cost would have had on the computation of cost of goods sold and depreciation expense for the year.

### NOTE 10 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly financial data for the years 1976 and 1975 have not been audited by Price Waterhouse & Co. in accordance with generally accepted auditing standards and accordingly they express no opinion thereon; however, they have made a limited review thereof in accordance with standards established by the American Institute of Certified Public Accountants (in thousands except per share amounts):

| | 1976 Quarters | | | |
|---|---|---|---|---|
| | First | Second | Third | Fourth |
| Net Sales | $833,345 | $899,260 | $807,298 | $841,172 |
| Gross Profit | $162,009 | $188,966 | $170,561 | $183,673 |
| Net Income | $ 22,866 | $ 32,914 | $ 30,725 | $ 26,302 |
| Per Share of Common Stock: | | | | |
| Primary Net Income | $ .74 | $ 1.06 | $ .99 | $ .85 |
| Fully Diluted Net Income | $ .71 | $ 1.01 | $ .94 | $ .82 |
| Dividends* | $ .325 | $ .325 | $ .35 | $ .35 |
| Market Price Range | | | | |
| High | $29⅞ | $30⅛ | $33¾ | $34 |
| Low | $26 | $26⅞ | $29⅛ | $30¼ |

| | 1975 Quarters | | | |
|---|---|---|---|---|
| | First | Second | Third | Fourth |
| Net Sales | $795,881 | $876,615 | $821,108 | $873,639 |
| Gross Profit | $136,795 | $164,142 | $159,378 | $174,921 |
| Net Income | $ 18,844 | $ 26,491 | $ 25,520 | $ 22,029 |
| Per Share of Common Stock: | | | | |
| Primary Net Income | $ .61 | $ .86 | $ .83 | $ .71 |
| Fully Diluted Net Income | $ .59 | $ .82 | $ .79 | $ .68 |
| Dividends* | $ .325 | $ .325 | $ .325 | $ .325 |
| Market Price Range | | | | |
| High | $24⅞ | $26⅜ | $24⅞ | $28⅝ |
| Low | $20½ | $21½ | $22⅛ | $22¾ |

*Dividends on Preferred Stock — Series B were $.33 in each quarter during 1976 and 1975. There was no Preferred Stock-Series A outstanding during 1976 and in 1975 dividends per share were $.16¼ in each quarter.

## REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

SIXTY BROAD STREET, NEW YORK, NEW YORK 10004 212/422-6000

February 22, 1977

**Board of Directors and Shareholders of Borden, Inc.**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1976 and 1975, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

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